EUROPEAN COMMISSION
DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS
Fiscal policy and policy mix
Fiscal governance

QUALITY OF PUBLIC FINANCE

SPENDING REVIEWS FOR SMARTER EXPENDITURE ALLOCATION IN THE EURO AREA

(Note for the attention of the Eurogroup)

Introduction and background

This note responds to a request by the President of the Eurogroup[1] asking the Commission to follow up on the invitation to the euro area (EA) to hold thematic discussions on improvements of the quality and sustainability of public finances.

The particular relevance of spending reviews for the EA Member States is (at least) twofold. On the one hand, it is linked to one of the key policy challenges facing the EA, namely to reduce government debt by pursuing fiscal responsibility. While gradually declining, the EA government debt-to-GDP ratio remains high at 91.7% at the end of Q1-2016. As fiscal policies are a matter of vital common interest in the EMU, the EA Member States are bound by more stringent fiscal discipline requirements, as notably embodied by the Fiscal Compact's balanced-budget rule setting a lower limit of 0.5% of GDP[2] for the structural deficit. On the other hand, the composition of fiscal strategies is not yet sufficiently growth-friendly[3] whereas public investment-to-GDP ratio for the EA as a whole is set to remain unchanged until 2017 - and thus to stand below the pre-crisis average[4]. As a part of the response to these policy challenges, spending reviews can serve as a smart approach to support both fiscal responsibility and growth-enhancing structural change in public spending.

The purpose of this note is to identify key success factors and main risks associated with spending reviews with a view to supporting the elaboration by the Eurogroup of a short list of common principles for guiding spending review processes in EA Member States.

This note builds on two thematic peer-reviews held at the Economic Policy Committee (EPC)[5] in February and September 2014, which gathered a lot of interest from the delegates. National experiences with spending reviews were presented by Ireland, the Netherlands, Spain and the UK, and discussed by a peer country – focussing in particular on the objective, the scope, the governance model and the tangible results in terms of savings and quality of public service. The discussions were framed by a comprehensive Commission note on the design, conduct and implementation of spending reviews (subsequently published as an Economic Paper[6]), which outlined approaches in terms of scoping, governance, roadmap, and integration in the budgetary process and presented case studies in the EU.

Other thematic discussions seeking to contribute to the improvement of the quality and sustainability of public finances took place in 2015 and 2016. In the field of national fiscal frameworks, peer reviews on independent monitoring institutions and medium-term budgetary frameworks were organised at the Economic and Financial Committee (EFC) in 2015[7]. More recently, the EPC in its EA configuration[8] discussed the quality of public expenditure across the euro area, leveraging quantitative insights on the growth-friendliness of the composition

[1] The Eurogroup is an informal body where the ministers of the 19 euro area Member States discuss matters relating to their shared responsibilities related to the euro. Its main task is to ensure close coordination of economic policies among the euro area Member States. It also aims to promote conditions for stronger economic growth.

[2] It can be up to 1% of GDP under specific conditions.

[3] Council Recommendation of 8 March 2016 on the economic policy of the euro area, OJ C 96, 11.3.2016, p.1–3

[4] European Economic Forecast Spring 2016, Commission's Institutional Paper No 25 of May 2016

[5] The EPC comprises two delegates from each of the 28 Member States, the Commission, and the European Central Bank. They are senior officials and come from the authorities responsible for formulating economic and structural policy: http://europa.eu/epc/members/index_en.htm

[6] http://ec.europa.eu/economy_finance/publications/economic_paper/2014/ecp525_en.htm

[7] *Medium-Term Budgetary Frameworks in EU Member States*, M. Sherwood, European Commission, discussion paper n°021, December 2015.

[8] EPC (see footnote 5) restricted to the 19 Member States of the euro area.

of national expenditure and on the efficiency of individual expenditure lines[9]. In the area of fiscal sustainability, following the publication of the Fiscal Sustainability Report[10] in January 2016, the Eurogroup adopted common principles for strengthening pension sustainability in June 2016[11]. Furthermore, a Eurogroup discussion on the implications of health and long-term care for the fiscal sustainability in the EA is pencilled in for October.

Definition of spending review

The confluence of fiscal and regulatory trends with demand for more transparency in the last decade has put the enhancement of expenditure performance firmly on the agenda.

Public expenditure in the EA accounts for almost half of the annual wealth created (48.9% of GDP in Q4 2015[12]), averaging 14,960€ per capita in the year 2015 (see EA ratios in Annex 1). Since the outburst of the crisis in 2007, pressures to reinforce responsibility and sustainability of the fiscal and social models across European countries have shaped the policy agenda. In the meantime, demand for greater transparency in budgetary processes and spending decisions has risen, stemming from the institutional side via new standards, rules and stakeholders[13] and from the civil society, illustrated by the proliferation of think tanks specialized in fiscal matters. While 'legacy' funding tends to increase from one budget year to another without being questioned, parliamentary and public debate tends to focus mostly on new funding. Smart options for saving without linear cuts across-the-board seem to be harder to detect – and even more difficult to implement.

Against this background, expenditure performance can be defined as the reinforced connection between funding decisions and policy priorities (shall this policy be funded with public money?) and subsequently between funding levels and outcomes delivered to end-users (what is the value for public money?). The end-users concerned could be companies, citizens, tax-payers, employees etc.

The primary ambition of spending reviews is to enhance budgetary performance by generating a smarter expenditure allocation. The effort consists in analysing existing individual baseline expenditures in a coordinated effort with the objective to detect:

i) opportunities for cutting funding of deprioritized policies or funding with insufficient impact on policy objective, and/or

ii) efficiency improvements – less costly delivery of a public good or service, or a better quality thereof at marginally the same cost.

Spending reviews entail the identification of “smart” changes in public spending, policies and organisations that would be least detrimental (or more beneficial) to the delivery of a public good or service while contributing to the objective of the review. Contrary to across-the-board linear cuts, which are usually applied faster, but often without anticipating and monitoring in detail the policy and financial impact (including spill-overs), this approach requires a significant investment of time and resources. Therefore, it may not be the best suited response in times of very urgent fiscal consolidation needs. During other times, including macroeconomic upswings, regular spending reviews appear as a feature of responsible and efficient policy and budget making and can benefit of appropriate support.

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9 *Quality of Public Expenditure*, Commission Note to the EPC in EA composition, ARES(2015)3761476 and *Composition and Efficiency of Public Expenditure*, Commission Note to the EPC in EA composition, March 2016

10 http://ec.europa.eu/economy_finance/publications/eeip/ip018_en.htm

11 http://www.consilium.europa.eu/en/press/press-releases/2016/06/16-eurogroup-pension-sustainability/

12 General government expenditure of the EA19 (Eurostat)

13 For example: European accounting standards, transparency regulations, establishment of national independent fiscal councils monitoring governments budget plans and execution

Once they materialize into implemented measures and reforms, the opportunities identified by spending reviews to streamline, reallocate within the same budgetary envelope - within the same policy area or across policies -, and sometimes cut public expenditure can contribute to the achievement of budgetary targets. They may even free up fiscal space to fund other policy priorities (e.g. investment, growth-friendly expenditures, social inclusion)[14] and secure their impact thanks to the removal of spill-overs from inefficient or ineffective policies. In particular, spending reviews can be beneficial to growth-enhancing expenditures. The latter often cannot be funded extensively without damaging the national fiscal performance unless expenditure margins are saved elsewhere; spending reviews are meant to identify such margins and create room for new or increased growth-enhancing appropriations. Overall, public spending is likely to deliver a better public good or service in an ecosystem which has been previously streamlined thanks to spending reviews.

In a nutshell, spending reviews are an instrument of selective and sustainable control over expenditure, delivering an expenditure allocation better aligned to national policy priorities.

Consequently, two types of approaches to spending reviews are usually observed:

- The strategic approach challenges the very funding with public money of a policy/body– divesting from policies whose root cause has been addressed, or can be satisfactorily managed outside the state remit (by the market, civil society, etc.), or where the impact of funding on the outcomes is not observed. Then the depth of intervention of the public authorities – ranging from service provider to regulator setting norms – can be discussed, and subsequently the public actor best positioned to perform this intervention reconsidered. Examples of opportunities include the abolishment of state bodies whose mandate has become obsolete or of tax expenditure providing an incentive which is no longer needed to support the emergence of a market.
- For the policies/bodies passing the strategic bar, the tactical approach is about achieving a better mix between the level of public funding and policy outcome – this focus on efficiency is observed more often across Member States who have engaged in spending reviews. Examples of opportunities include the pooling of back office functions across line ministries (like procurement or paymaster office), or the merging and streamlining of duplicate structures at central and regional level or a better targeting of social benefits.

The degree of comprehensiveness can vary substantially, ranging from reviews covering almost the whole general government or one or several of its sub-sectors (e.g. central government; social security) to more targeted reviews covering, for example, only some ministries or agencies or some type of expenditure.

Examples of spending review

In the EU, before the outset of the crisis in 2007 only the Nordic countries, the Netherlands and the UK had engaged in large scale spending reviews with tangible results. As regards specifically the Nordic countries and the Netherlands, their reviews were triggered by growing deficits in the 1980s and 1990s.

Transparency on overall impact captured is not always easily found publicly, be it in terms of savings, quality of public service, end-user satisfaction or equity. Some elements on financial

[14] The Commission's Annual Growth Survey 2016 stresses that "*The composition of fiscal strategies should further prioritise growth-friendly expenditure and preserve productive public investment*."

impact are however publicly available[15]. For example, savings of €7.8bn were reported in Ireland in mid-2013 for the 2011 spending review and a previous exercise in 2008[16] – and at the end of 2013, the Irish authorities indicated that public payroll was reduced by 19% between 2009 and 2013[17] (net of pension-related deductions). In France, savings actually generated by the RGPP reform are estimated at 11.9bn € over the period 2009-2012[18], saving 3% of the total central state spending; 30% of these savings were generated by reducing central state FTEs by approx.150,000 civil servants – a share of the savings was redistributed as incentives. In the UK, according to HM Treasury, £19.2bn were saved on efficiency measures between 2010 and 2012. In the Netherlands, an estimated share of 25% of expected savings from measures decided on the basis of policy reviews were captured between 1981 and 1991 (OECD, 2011), considering that expected savings amounted to €4.2bn over the period 1984-1997.

Spending reviews have also been an instrument to transform state structure and culture. In Sweden for example, the state reform stabilized the weight of public payroll spending in the GDP at 2.3% between 1995 and 2010. This was notably achieved by setting independently-managed government agencies spending the biggest share of the budget and employing more than 90% of the public workforce, with pooling of most of their back-office functions. One-stop-shops for end-users (tax, justice, social security) have been established in hundreds of municipalities.[19] In Spain, the CORA reform led to the suppression of more than 800 entities in the remit of the regional governments between 2011 and mid-2015, for estimated savings of €2bn.

In the EA, according to available information 10 Member States have been identified as being currently engaged, at various stages, in some form of spending review on their own initiative, or have announced their plan to do so in 2016/2017 in the Stability Programmes submitted to the Commission in spring 2016[20] (see table below): France, Germany, Ireland, Italy, Latvia, Luxembourg, Portugal, Slovakia, Slovenia and Spain. For many of them (Germany, Latvia, Luxembourg, Slovakia, Slovenia), it is a first initiative which is or will this year take the form of pilot projects focussing on selected budget programmes. France, Ireland and Italy already have experience in conducting spending reviews on a large scope of the general government, albeit with heterogeneous track record in implementation.

In the context of the European Semester 2016, three EA MS have received a country-specific recommendation (CSR) explicitly referring to spending reviews, namely France, Italy and Portugal, whereas a few other EA MS (e.g. Slovakia, Slovenia) have received a CSR item on the need to improve the effectiveness of a particular sector (mostly healthcare).

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[15] See more details in the Commission Economic Paper N°525/2014: http://ec.europa.eu/economy_finance/publications/economic_paper/2014/ecp525_en.htm

[16] Special Group on Public Service Numbers and Expenditure Programmes. Source: OECD

[17] See a speech by the Secretary General: http://per.gov.ie/2013/11/01/perspectives-on-public-service-reform-speech-by-mr-robert-watt-secretary-general-at-institute-ofpublic-administration-ipa-conference/

[18] See the 2012 report from the State inspection bodies: http://www.fonction-publique.gouv.fr/publications/publications-hors-collection-2

[19] See more details in the Commission Occasional Paper N°125/2012: http://ec.europa.eu/economy_finance/publications/occasional_paper/2012/op125_en.htm

[20] Stability Programmes submitted in the context of the 2016 European Semester: http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm

EA MS with ongoing or announced spending reviews and/or 2016 CSR on spending review

	Spending reviews			**CSR related to spending reviews**	
Euro area MS	**Ongoing/ announced in Stability Programme 2016**	**Name/scope**	**Lead governance unit**	**2016 CSR**	**Formulation**
Germany	✓	Pilot projects ongoing, will inform 2017 federal budget and 2017-2020 fiscal plan	Dedicated unit in MoF		
Spain	✓	Implementation of CORA reform and ongoing State Budget review to inform 2017 budget			
France	✓	*Modernisation de l'Action Publique* (MAP) (structural reforms, not necessarily spending cuts). *Revues de dépenses* informing budget making with tactical savings (on all GG subsectors and including tax expenditures).	SGMAP (PM service) MoF	✓	*"Specify the expenditure cuts planned for the coming years and step up efforts to increase the amount of savings generated by the spending reviews, including on local government spending, by the end of 2016. Reinforce independent public policy evaluations in order to identify efficiency gains across all sub-sectors of general government."*
Ireland	✓	Value for Money and Focused Policy Assessment Reviews 2015 – 2017 on selected Govt. programmes, to inform the next "Comprehensive Expenditure Report" supporting multiannual budget targets. Tax Expenditure Review completed.	IGEES (cross-government evaluation service)		
Italy	✓	Ongoing effort to enshrine the principle of running spending reviews within the budgetary process	MoF	✓	*"Finalise the reform of the budgetary process in the course of 2016 and ensure that the spending review is an integral part of it."*
Luxemburg*	✓	Expenditure review			

	Spending reviews			CSR related to spending reviews	
Latvia	✓	Pilot projects to inform the 2017 Budget, incl. on healthcare and education	MoF and cross-sectoral coordination center		
Portugal	✓	Ongoing review on 5 policies: education, healthcare, state-owned enterprises, public procurement, real estate management.	MoF	✓	*"Conduct, by February 2017, a comprehensive expenditure review and strengthen expenditure control, cost effectiveness and adequate budgeting at all levels of public administration."*
Slovenia	✓	Reviews conducted on healthcare, education and social protection , with implementation expected as of 2017			
Slovakia	✓	Spending reviews launched as part of broader Value for Money government initiative. Pilot projects on primary/ secondary schools, financial administration, labour offices. Ongoing projects on healthcare, transport and ICT to feed into 2017 budget.	MoF		

** More details not available in the Stability Programme 2016, to be completed.*

Source: European Commission, Stability Programmes 2016

Annex 2 presents case studies on the UK, Dutch and Irish experiences.

Key success factors and main risks for spending reviews

There is no one-methodology-fits-all for designing, conducting, implementing and evaluating a spending review. However, key success factors and main risks can be derived from successful and less successful experiences of EU and EA Member States – they are spelled out in this section, as a basis for potentially crystallising common principles. This section does not purport to address the issue of benchmarking expenditure allocation across EA Member States, which is a sovereign decision.

The presentation is structured according to five steps of an illustrative spending review roadmap, namely: (i) commitment, (ii) design, (iii) conduct, (iv) decision about implementation, and (v) implementation and ex-post evaluation.

- **Commitment**

Launching a spending review with the ambition to implement the reform options it will eventually define requires the fulfilment of several pre-conditions.

Firstly, commitment at high national political level to have the review carried out must be unequivocally assumed, communicated, and maintained throughout the project. It is necessary to mobilise the public administration which is expected to provide input and later to implement the changes, make available adequate resources to manage the spending review and build ownership for future decision-making on the conclusions of the spending review. A lack of commitment would leave the reviewers without the authority to request access to the relevant data and people inside the administration to carry out their task. It also risks compromising the chances of implementation, thus limiting its role to a report with no impact.

The commitment should underpin a clear strategic mandate spelling out the objectives, scope and timing for the review, as well as to whom the responsibility for conducting the review is entrusted. The objectives often communicated are savings, end-user satisfaction, quality outcome and/or equity. One of them should clearly be identified as the main anchor. Savings objectives are sometimes set in quantitative terms and consistently with multiannual budgetary objectives[21]. A quantified objective signals the degree of boldness and innovation which is expected from the spending review in terms of reform options, and the degree of transformation of the public structure or intervention which the political level is potentially ready to support - in particular in terms of HR. The commitment could materialize at a time in the legislature allowing the political level to have sufficient time to launch the review, decide on the subsequent measures or reforms to implement, and actively support at least the start of implementation. Recommending an adequate moment for initiating spending reviews can be seen from a twofold perspective: in hard times, they may come as a highly recommended method to detect potential savings without compromising growth recovery; in good times, more resources and more time may be available to explore and experiment more and better reform options.

Overall, **a condition for generating fiscal impact in a coordinated effort is that the scope covers various policies, and accounts for a significant share of public expenditure.** There are multiple criteria to set limits to the scope of the spending review in terms of policies covered. They can be of institutional nature (budgetary authority over government subsectors), technical nature (availability of data, volatility of expenditures, specific categories of input e.g. functioning costs), budgetary or political nature (potential savings, implementation risk). Regarding potential savings, the rationale and efficiency of spending allocation should be challenged by looking into the details: the potential for savings is not necessarily proportionate to the respective share in the total spending bill, just like a below-the-average spending ratio should not automatically ring fence a policy from being scrutinized (e.g. back office functions may be overfunded).

Once the final scope is defined, the sequencing of the review appears possible. Indeed, some Member States have extended progressively the policies under review in order to capture visible gains by building credibility and experience first (e.g. Prime Minister Delivery Unit in the UK). Resorting to pilot reviews on selected policies enables to gain experience and adjust the strategic mandate before a more comprehensive roll out. A more systematic approach

[21] This is the case in Ireland, where the Comprehensive Review of Expenditure is meant to inform the setting of multiannual expenditure ceilings. In the Netherlands, in the run-up to the elections in late 2009, a taskforce combining staff from the relevant line Ministry and the Ministry of Finance was invited to formulate reform options, one of which generating savings of a minimum of 20% over 4 years, that could potentially feed political decision.

upfront (France on the functioning costs of the central state during the RGPP[22], Italy on most of the general government during the review led by Mr. Cottarelli in 2013) can on the one hand unite all forces towards a joint impetus for reform, but on the other hand also generate reform fatigue within the administration and, overall, limit the likelihood of implementation of an excessively long list of reforms.

Critically, the coordination of the spending review needs to be overtly assigned to a dedicated "command centre" enjoying full political backing for implementing the strategic mandate (for example, an identified team within the Prime Minister's Office or the Ministry of Finance) – see section "Conduct" below.

- **Design**

The strategic mandate should be broken down into multiple mandates designed according to a standard deliverable expected as outcome for each individual review. The standard deliverable would define the factual elements required to later document a decision on whether and which reform options should be implemented. Methodological guidelines, for example for calculating the estimated savings and costs of reform options consistently, are to be communicated, and a leader identified for each individual review.

The breakdown should not mechanically follow existing budget or administrative structure. Structuring the reviews according to a "spending chain" across administrative responsibilities and categories of inputs (personnel, equipment etc.) by focussing on the impact for the end-user enables to capture the full picture of public intervention and associated cost. In addition to "vertical" mandates on a specific policy objective, the use of horizontal mandates across policies is encouraged – on HR, procurement for example – while taking into account the specificities of the underlying policies. While the pre-existence of a budget already structured according to policies rather than inputs may accelerate the diagnosis phase, its revision in that aim is a highly complex project which should not be treated as a pre-condition to launching a successful spending review.

- **Conduct**

For each individual mandate, factual analysis should be the core of the diagnosis, elaboration of reform options and implementation roadmaps for each individual review. Firstly, a diagnosis mapping the existing expenditure associated with administrative processes and structures involved versus its policy outcome should be built. It should be based on facts primarily gathered via field visits, observations and benchmarking across public bodies rather than administrative definitions that may not accurately be reflected in practice. Existing up-to-date diagnosis built this way should, of course, be leveraged. Only then can reform options proposing alternative target situations (e.g., population covered, organizational structure delivering the service, simplified process) be elaborated and documented – including, where possible, the estimation of potential impact (savings, public service, equity), implementation and new recurring costs, pre-requisites (legal, IT, HR etc.), feasibility risk etc. The next step would be to build implementation roadmaps to bridge the gap from current to target situation. Insufficiently documented reform options based on vague, unquantified diagnosis will make it difficult to agree on whether the measure or reform once implemented is a success or not. It also risks triggering negative spill overs, delays and under budgeted costs/over budgeted savings during implementation, as well as complicating the monitoring of implementation.

[22] Révision Générale des Politiques Publiques (General Review of Public Policies, 2007-2012)

The establishment of a clear expenditure baseline against which the fiscal impact of each reform option is estimated (and will later be monitored in the implementation phase) is instrumental. So is the factoring in of both one-off and recurring implementation costs, which are often less analysed than potential savings.

The staff dedicated and contributing to the spending review makes the difference. A first role consists in actually carrying out each individual review. For this role, insider knowledge of administrative rules and processes as well as access to data are key. So are analytical skills and experience in transforming large organisations. The degree of centralisation of this role and of ownership/involvement of staff in charge of the policy under scrutiny varies a lot in EU experiences.

A second role aims at coordinating the review against the strategic mandate. It includes keeping track of the progress across individual reviews, challenging the diagnosis and reform options submitted by review teams, safeguarding methodological consistency, providing technical assistance to review teams and coordinating the reporting of milestones to the decision-making level and the public. Looking at past reviews conducted in the EU, this role is commonly assigned to a "command centre" reporting to the Ministry of Finance and/or to the Prime Minister, usually operating in a network of "champions" in charge of individual reviews/ in each line ministry and public entity concerned.

Lessons from the EU outside the EA suggest that fully outsourcing this coordination role outside the national public authorities (e.g. to the private sector or international organisations) bears a risk of weak ownership, accountability and poor understanding of the specific administrative and budgetary realities. This might negatively impact the quality of review as well as the feasibility of its implementation, and will also limit the chance of a review expertise and performance culture to take root within the administration. On the other hand, the command centre should welcome bottom-up or peer-to-peer insights and questioning stemming from the end-user of a public good or service, from the public staff directly involved in its delivery, or from independent contributors (think tanks etc.), and resort to external expertise to fill the skill gaps.

- **Decision about implementation**

It should be clear at the beginning of the project who will take the decision for each review on whether and which reform options put forward will be implemented and according to which roadmap.

Decisions should not be taken (only) by officials having a stake in the policy/spending under review. This concerns in particular the elaboration of the factual diagnosis, the estimate of the potential impact (savings, quality), the selection of the preferred reform option or the opportunity to roll out an experiment nation-wide. At the same time, involvement and ownership from public managers concerned should be secured.

Within the portfolio of reforms selected for implementation, the priority can be granted to those where the potential gain and the number of end-users (or occurrences per end-user) are maximised, or to the low-hanging fruits with small gain but high feasibility.

Specific reforms selected on the basis of a spending review should be reflected in multiannual and annual budget planning, including a consolidated view on the expenditure baseline and the overall fiscal impact expected against it. This not only reinforces the credibility of national fiscal targets by spelling out concretely underlying reforms and their estimated fiscal impact, but also secures the implementation calendar of these reforms by granting them a budgetary and political weight. It also enhances the transparency of budgeting for parliamentary debate and for tax-payers.

- **Implementation and ex-post evaluation**

Implementation has to be anticipated and factored in the decision. Indeed, the legal changes required for a reform are sometimes considered as the achievement of the reform, whereas the operational changes (HR, change management, incentives for public staff, IT) are the drivers of the success of a reform in practice. In particular, a spending review is the opportunity to build a culture welcoming change and performance in the public service in general, and to empower public managers in particular. The resources and incentives needed to succeed in implementing the measures or reforms decided are a priority.

Costs, savings, impact on the delivery of public goods and services should be tightly monitored in the short and medium-term, and transparently reported. The reporting of implementation progress in terms of rate of completion of actions is necessary, but not sufficient to form an opinion on whether a reform is on track. Not investing in such monitoring risks experiencing a slippage in cost, delays and a permanent bias in estimated impact. Not engaging in transparent reporting puts at risk accountability towards end-users and administrative staff who would experience the changes first hand.

Experimentation on a sample entity or population is likely to improve the quality of a full roll out. It could lead to reorienting the reform, adjusting the assumptions in terms of impact and calendar, or abandoning a reform in case the estimated benefit is not reaped in practice during experimental phase.

Independent evaluation of the spending review itself against the initial strategic mandate is instrumental. This is an opportunity to track the actual impact and to correct dysfunctions in the project before distortive decisions are taken again for the next review.

Spending reviews should become a permanent feature of national budgetary processes. In-depth examination and questioning of the way public money is spent and how its policy outcome materializes for end-users could be sequenced over a multiannual horizon across main policy areas. This would engrain a culture of efficiency throughout the administration and keep a constant check over efficiency by acknowledging the fact that the profile and needs of the end-users targeted by specific policies constantly evolve, just like economic constraints and political priorities. To date, only few EA Member States have already enshrined the principle of running regular spending reviews in their legal fiscal framework or their multiannual fiscal plans, with heterogeneous binding strength of the conclusions of the reviews (e.g. Ireland, the Netherlands, and France[23]).

Conclusions

Spending reviews have the potential to contribute to an enhanced performance of public expenditure with a smarter allocation better aligned with policy and budgetary objectives (including growth-friendly fiscal consolidation).

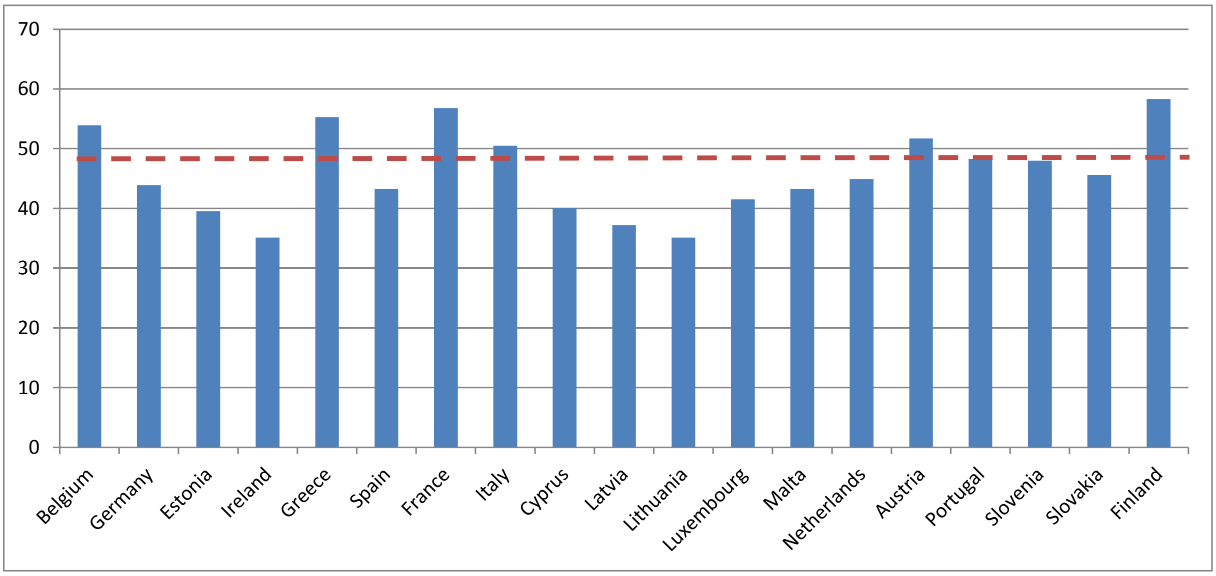
[23] In Ireland, Circular 15/13 foresees that a Comprehensive Review of Expenditure is carried out every three years to reconsider expenditure ceilings included in the update of the Stability Programme. In the Netherlands, a cross-party agreement was struck to run regular spending reviews. In France, the multiannual budget law 2014-2019 (Article 22) foresees that spending reviews are conducted by inspection and auditing bodies to potentially document structural reforms – the Government remains the final decision-maker.

Based on Member States' experiences, the following factors appear essential for a successful spending review:

Commitment	a) **Strong political commitment at high national level throughout the project,** materialized into a clear strategic mandate notably spelling out the objectives (potentially including quantified targets) and into regular monitoring, communication and decision-making on reform options generated, b) **Scope of review** covering a significant share of general government expenditure across several policy areas, with potential use of pilots and sequencing,
Design/Conduct	c) **Clearly designated "command centre",** enjoying full political backing for coordinating the review, d) **Adequate and sufficient resources** for conducting and implementing individual reviews, e) **Consolidated view on the connection between expenditures and policy outcomes for the end-user,** across administrative structures, categories of input and budgetary classification, f) **Fact-based and unbiased analysis** relying in particular on field visits, observations and benchmarking and **coordinated guidelines** to support, for each individual review, the elaboration of a diagnosis and baseline, reform options and implementation roadmaps,
Implementation/ Evaluation	g) **Transparent monitoring and reporting** to public sector staff and the general public on the progress in terms of process and impact, h) **Consistency of the ambition and conclusions of the spending review with annual and multiannual budgetary targets** reflected in budget planning, i) **Use of pilots and experimentations** before engaging in more comprehensive roll out to build expertise and credibility, j) **Independent ex-post evaluation of the spending review itself** to learn lessons for future reviews, k) **Amendment of the national fiscal framework** to include the principle of running regular spending reviews to inform budget making.

ANNEXES

Annex 1 – General government expenditure-to-GDP ratio, Member States of the EA and EA average, 2015



Source: Eurostat

Annex 2 – Case studies of spending reviews in the UK, Ireland and the Netherlands – abstract from ECFIN Economic Paper 525 of July 2014

UK – the 2010 Comprehensive Spending Review and the 2013 Spending Round

The objective of the 2010 Comprehensive Spending Review was to set disaggregated expenditure ceilings in order to save £81bn over 4 years (from 2011/12 to 2014/15), thus making the share of public spending in the GDP return to its 2006/07 level (2008/09 in real terms). The methodology to generate those savings consisted both in scaling down or stopping selected policies/projects/bodies and in increasing the efficiency of maintained ones. Decisions are implemented as they are endorsed by the Chancellor and reflected in budget plans. For the first time in the already established British experience with spending reviews, the scope is almost complete as transfers to sub-national governments, capital and current expenditures, as well as tax expenditures are included[24]. Among the measures announced in 2010 were welfare cuts[25], freeze in public sector pay, efficiency measures, reduced debt-servicing cost, as well as maintained or increased spending for selected priority or growth-enhancing policies (schools, transport, low-carbon economy etc.). The Office for Budget Responsibility (OBR) estimated that half a million public jobs would be cut by 2014/15.

In terms of Governance, the new Public Expenditure Committee of the Cabinet (PEX) and the Quad (Prime Minister, Deputy Minister, Chancellor and Chief Secretary to the Treasury) are in charge of coordination and decision-making. Spending plans and reform options were prepared bottom-up by each spending ministry and alternatives proposed by the Treasury. Public agents and the public were invited to submit their saving ideas through a "Spending Challenge" website. An Efficiency and Reform Group (ERG) was created to detect and implement efficiency reforms in partnership with the Treasury and spending ministries.

In 2013, a new "Spending Round" was presented to the Parliament: in fact, it disaggregates the targets of general government expenditures for 2015/16 with a saving objective of £11bn. Based on announced measures and spending cuts, the OBR forecasts that public jobs would be further reduced by 144,000 by 2015/16. Further efficiency savings of £5 billion are expected through, inter alia, the scaling back of non-priority projects, a centralised procurement across the Government and a cap on public sector pay.

Ireland – the Comprehensive Review of Expenditure

In December 2011, the first Comprehensive Expenditure Report 2012-2014 was published. This Report was the output of the Comprehensive Review of Expenditure (CRE) that was conducted in Ireland with the objectives of i) meeting the overall fiscal consolidation objectives in terms of spending and numbers reduction targets, ii) re-aligning spending with Government priorities and iii) considering new ways of achieving Government objectives. It set multiannual expenditure ceilings for 3 years (2012 to 2014). This expenditure allocation was predominantly informed by expenditure reports prepared by individual spending ministries (including health and social protection). They were considered in first instance by a high Steering Group chaired by the Secretary General of the Department of Public Expenditure and Reform.

[24] According to the British budget classification, both Departmental Expenditure Limits (DEL) and annually managed expenditure (AME) were included in the scope. However, selected policies were either ring-fenced, or received additional funding to preserve growth: schools, international aid, health, transport, low-carbon economy

[25] E.g. a time limit for the Contributory Employment and Support Allowance, an increased age limit for shared room rate housing benefit, a removal of the mobility component for disabled claimants in residential care.

The Expenditure Reports represented a line-by-line examination of the spectrum of public services designed to refocus delivery and achieve better value for money. Each spending ministry had primary responsibility for evaluating every budgetary programme for which they were responsible, including programmes delivered by Government Agencies, and put in place internal administrative arrangements to ensure the delivery of the Expenditure Reports within a challenging timeframe. A standard approach was developed as an aid to prioritisation and involved assessing each programme against three Value for Money tests: (a) rationale, objectives and relevance, (b) effectiveness and (c) efficiency.

In terms of impact, savings of €7.8bn were reported to the OECD Working Party of Senior Budget Officials mid-2013 for the 2011 spending review and a previous exercise in 2008 (Special Group on Public Service Numbers and Expenditure Programmes). At the end of 2013, the Secretary General indicated that public staff had reduced by 30,000 since 2008, reducing the public payroll from €17.5bn in 2009 to €14.1bn in 2013 (net of pension-related deductions)[26]. The Irish Government announced that this process was not meant to be a one-off but to become a cornerstone of the budgetary planning. In October 2013, the Government announced that a new CRE and review of the Capital Investment Framework would commence in the coming months.

The Netherlands – the 2010 Comprehensive Expenditure Review and the 1990s Interdepartmental policy reviews

In the Netherlands, a cross-party agreement to undertake spending reviews on a regular basis over a multiannual time horizon was struck in 2010. In the run-up to the elections, a spending review was initiated in late 2009 on 20 topics for a four-year plan. The scope accounted for approx. 80% of total Government expenditure and included among others tax expenditures. Each topic was reviewed by a taskforce combining civil servants from the relevant line ministry and staff from the Ministry of Finance, and chaired by senior officials not responsible for the policy under review. Their objective was to independently formulate reform options – one of which generating savings of a minimum of 20% over 4 years – that would then potentially feed political decision. Overall, the proposed reform options were estimated at a €35bn annual saving potential (12% of the central government and social security expenditure). Some of the suggested cuts were included in political campaign programmes and, after the government was formed, in the coalition agreement, often with some adaptations (e.g. measures such as the privatization of public transport in big cities or a reduction in child care compensation), while others were left aside at that stage (housing market/interest rate deduction scheme etc.)[27].

This initiative revives the well-established Dutch experience with spending reviews. After a series of initiatives in the 1970s, policy reviews were structured with the 1981 Reconsideration Procedure, during a severe fiscal crisis, and strengthened by interdepartmental policy reviews from 1995. The objective of the policy reviews was to suggest alternatives to a given policy that could yield savings through efficiency measures or potentially reduction of service levels. Overall, 243 reports were made public in the period 1981 to 2006, with the annual average shrinking to less than five in the early 2000s. In terms of past results, an estimated share of 25% of expected savings from measures decided on the basis of policy reviews was actually captured between 1981 and 1991 (OECD, 2011), considering that expected savings amounted to €4.2bn over the period 1984-1997.

[26] http://per.gov.ie/2013/11/01/perspectives-on-public-service-reform-speech-by-mr-robert-watt-secretary-general-at-institute-ofpublic-administration-ipa-conference/
[27] Berger B. (2011), Spending cuts without the Cheese Slicer, IMF Public Financial Management Blog