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Spending review in the Netherlands

PEMPAL Budget Community of Practice

Antalya, 6 March 2014



Subjects of the presentation

A. International background

- What is spending review
- Why spending review

B. Spending review in the Netherlands

- Spending review as tool of evaluation
- Procedural characteristics
- Results
- Lessons learned



A. International Background



What is spending review ?

A form of policy evaluation aimed at the development of options that lead to savings on public expenditures

Examples:

- UK: Spending Review
- Australia: Strategic Reviews
Comprehensive Spending Reviews
- Canada: Strategic Reviews
- Netherlands: (Comprehensive) spending reviews
- France: Revision Generale des Politiques Publiques



Key features:

- Policy evaluation
- Options
- Savings



Policy evaluation

Efficiency of production of outputs

- Input mix
- Cost of inputs
- Organization of production

Effectiveness of outputs in relation to outcomes

- Choice of policy instruments (output mix)
- Design of policy instruments



Options

- Spending review is prospective, rather than retrospective
- Spending review is neutral (not normative) and pragmatic (with a view to political feasibility)



Savings from:

- Efficiency improvement
- Elimination of ineffective policies
- Reduction of service levels
(including obligatory savings option)



Why spending review ?

- Asymmetric incentives in strategic decision-making (medium-term expenditure framework)
- Confidence building in the annual budget process



Asymmetric incentives

Line ministries:

- Motivated to develop good proposals for new spending
- Not motivated to develop good proposals for savings

Hence: special procedures required to develop savings options, outside the regular budget process



Datasets informing the decision on the MTEF

1. Fiscal rule and macro-targets in the medium term
2. Current baseline estimates
3. Revenue forecasts
4. Requests for new spending initiatives, costing of spending proposals, savings proposals
5. Revenue options



Spending review in support of MTEF

- Consolidation (reduction of deficit)
- Creating fiscal space for new spending
- Comprehensive spending review is suitable in particular for fixed multi-year MTEF procedures (UK, the Netherlands)



Confidence building

- In a top-down budget process, line ministers have in principle incentives for good savings once the MTEF is decided
- Use of spending review in support of budgetary discipline may contribute to internal credibility and cooperation with Ministry of Finance
- Spending review may support inter-ministerial compensation



B. Spending Review in the Netherlands



Spending review as a separate tool of evaluation

Evaluation	Responsible ministry	Aim	Impact on budget
Ex ante	Line ministry	Go/no go	low
Ex post	Line ministry	Policy improvement	low
Spending review	Ministry of Finance	Savings options	high



Use of spending review

- Reports are used by political parties, Ministry of Finance and line ministries.
- As input to the decision on the MTEF (to make room for new spending): once in four years.
- To support budgetary discipline: annually (compensation in case of overspending).



Procedural characteristics

A. Organization

- Working parties, not dominated by line ministry
- External chairman
- External experts
- Secretariat: Ministry of Finance
- Interministerial supervisory committee



Procedural characteristics

B. Process

- Terms of reference established by Cabinet
- Uniform guidelines for conduct of review
- Obligatory savings option (20 % in comprehensive spending review)
- No veto right
- Short time frame (3-5 months)
- Reports published (with or without Cabinet view)



Uniform guidelines

- Delineate policy area
- Specify expenditures and non-tax revenues
- Define policy objectives and instruments
- Evaluate efficiency and effectiveness with help of performance information
- Develop options for increased efficiency and scaling back of less effective policies
- Develop options for obligatory savings options (20%)



Results

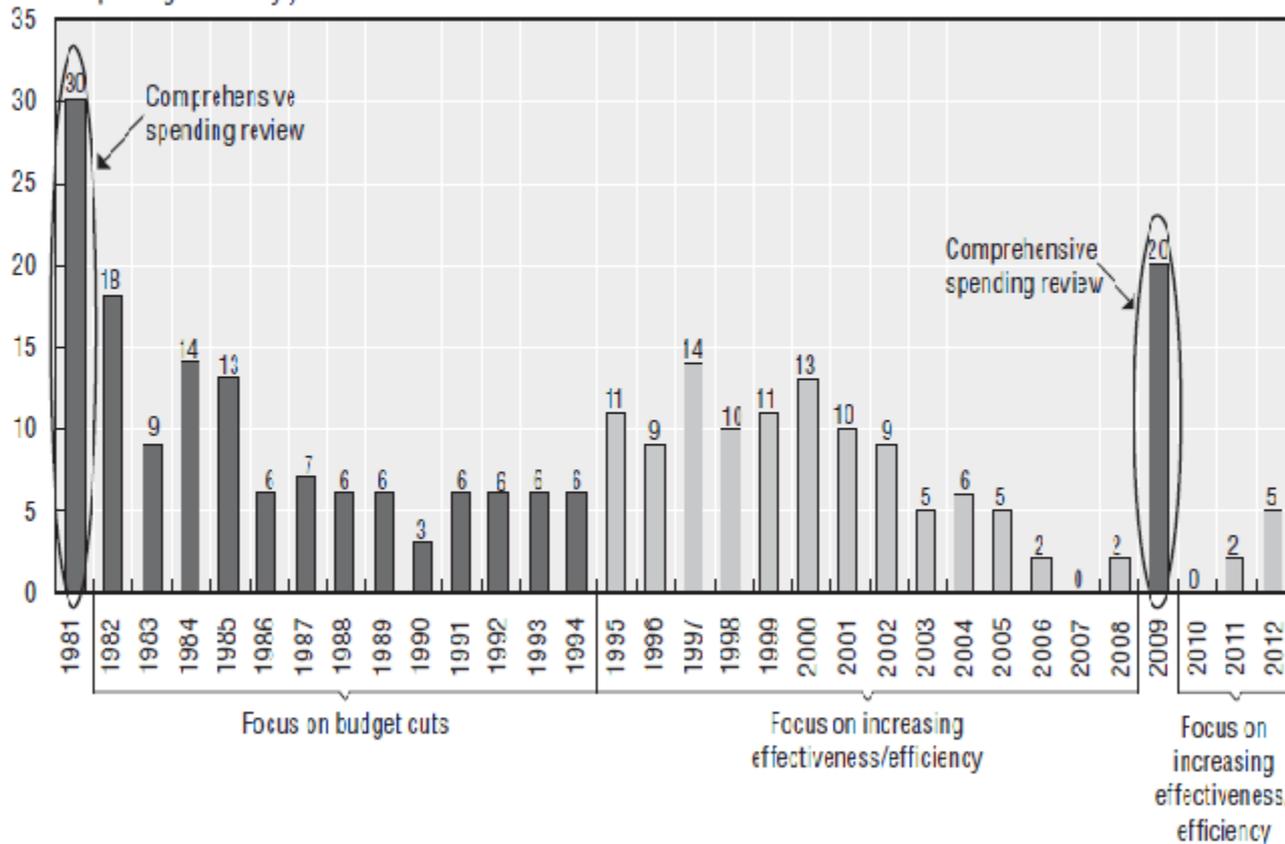
- Number of annual reviews
- Impact on electoral party platforms
- Impact on budget



Number of spending reviews per year

Figure 1. Spending reviews since 1981 (270 completed)

Number of spending reviews by year of commencement of review

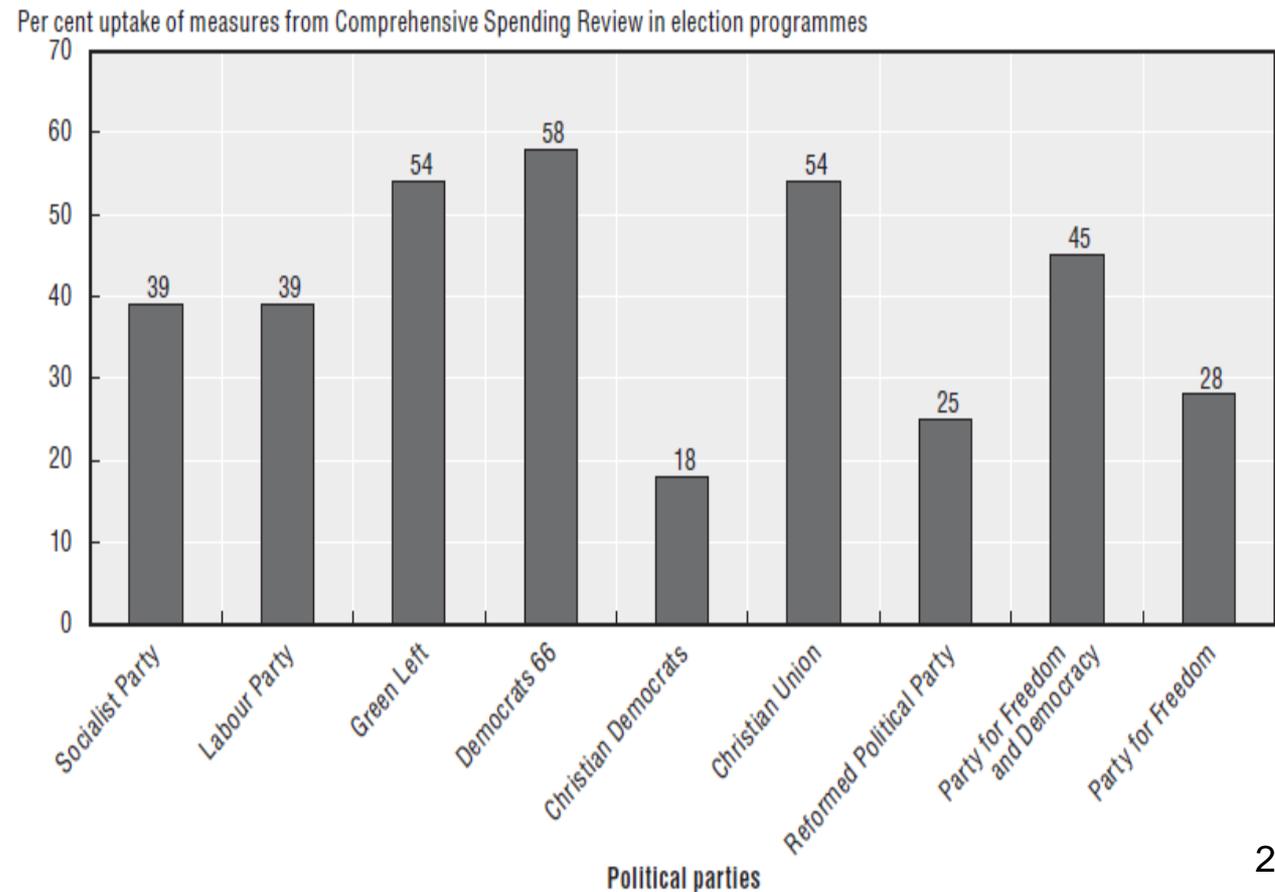


Source: Ministry of Finance, Netherlands.



Impact on electoral party platforms

Figure 2. Influence of the Comprehensive Spending Review 2009/10 on the platforms of Dutch political parties during the 2010 elections





Impact on budget

- Share of the savings options that have been used: increasing 10 to 30 % in the course of time
- Share of the realized savings measures based on spending reviews: around 30 %



Lessons learned

- Policy evaluation is a tool of line ministers in support of policy development; spending review is a tool of the Ministry of Finance in support of the budget process
- Policy evaluation requires rules to ensure quality for which the Ministry of Finance is responsible
- Both policy evaluation and spending review must be based on clear rules or well-understood practices
- Spending review working parties should not be dominated by line ministries