CONDUCTING RAPID SPENDING REVIEWS TO IDENTIFY MEASURES FOR BUDGET BALANCING

Approaches, Challenges, and Recommendations

January 2021

PEMPAL SECRETARIAT

36/1 B. Molchanovka, str.
121069 Moscow, Russia
T: +7 495 745 70 00

www.pempal.org

Budget Community of Practice (BCOP)
T: +7 495 745 70 00 ext. 2038
T: +7 499 921 20 38
E: BCOP@pempal.org

Contents

Acknowledgements

This knowledge product (KP) was prepared under the Program and Performance Budgeting Working Group (PPBWG) of the Budget Community of Practice (BCOP) within the Public Expenditure Management Peer Assisted Learning (PEMPAL) network.

PPBWG Lead and Co-leads Nikolay Begchin and Ivan Rakovskiy from the Ministry of Finance of the Russian Federation and Emil Nurgaliev from the Ministry of Finance of Bulgaria led the development of this knowledge product. Members from 15 BCOP countries contributed to the product: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Kosovo, Moldova, Russian Federation, Serbia, Ukraine, and Uzbekistan.

The BCOP Resource Team that supported the PPBWG consisted of Iryna Shcherbyna, BCOP Resource Team Coordinator; Nina Hajoyan, BCOP Consultant; and Naida Carsimamovic, BCOP Resource Team member. Ksenia Malafeeva, PEMPAL Secretariat, provided logistic and administrative support. William Gallagher (Consultant) conducted professional editorial review of the report.

The KP greatly benefited from the comments provided by Ivor Beazley, World Bank Senior Public Sector Specialist and Axel Mathot, Senior Policy Advisor of the Public Management and Budgeting Division of the Organization for Economic Cooperation and Development (OECD).

Foreword

As the leaders of the Program and Performance Budgeting Working Group (PPBWG), we are pleased to present this report, which is a result of collaboration among 15 Ministries of Finance (MFs) across the Europe and Central Asia (ECA) region, all members of the Budget Community of Practice (BCOP) under the Public Expenditure Management Peer Assisted Learning (PEMPAL) network.

The PPBWG, formed in 2016, focuses on the design and implementation of program and performance budgeting and spending reviews with the aim of improving spending effectiveness. Reforms in this area have been continuously reported as priority areas by most of our members. The PPBWG works in close partnership with the World Bank, and Organization for Economic Cooperation and Development (OECD) Public Management and Budgeting Division. We are indebted to these partnerships and value the opportunity for knowledge exchange.

We would like to take this opportunity to thank all of our 15 member countries for their contributions, including participation in our internal online survey, providing feedback and inputs in the virtual workshop held in November 2020, as well as in providing comments on the draft version of this report.

The development of this knowledge product was motivated by the global budgetary pressure stemming from both reduced revenues and increased expenditure needs resulting from COVID-19 pandemic. We believe that this report provides some valuable and innovative options for our countries to consider in conducting rapid spending reviews with a goal of identifying budget balancing measures.

We wish our member Ministries of Finance all the best in their ongoing reforms in program and performance budgeting and we look forward to our future collaboration.

— **Nikolay Begchin**
PEMPAL BCOP PPBWG Lead and BCOP Deputy Chair
Head of the Department of Program Planning and Effectiveness of Budget Expenditures, Ministry of Finance of the Russian Federation

— **Ivan Rakovskiy**
PEMPAL BCOP PPBWG Co-lead and BCOP Executive Committee member
Deputy Unit Head in the Department of Program Planning and Effectiveness of Budget Expenditures, Ministry of Finance of the Russian Federation

— **Emil Nurgaliev**
PEMPAL BCOP PPBWG Co-lead and BCOP Executive Committee member
Chief Expert in Budget Methodology Division of Budget Directorate, Ministry of Finance of Bulgaria

Acronyms and Abbreviations

BCOP	Budget Community of Practice
B/C	Benefit / Cost
CBA	Central Budgeting Authority
CCEC	Cabinet Committee on Expenditure Control
CEA	Cost Effectiveness Analysis
CER	Comprehensive Expenditure Review
COP	Community of Practice
CPC	Cabinet Policy Committee
CRRF	Covid-19 Response and Recovery Fund
CSR	Comprehensive Spending Review
CT	Coordination Team
CUA	Cost Utility Analysis
DM	Deputy Minister
DP	Development Partner
EC	Expenditure Committee
EECCA	Eastern Europe, Caucasus, and Central Asia
EU	European Union
FC	Fiscal Committee
GDP	Gross Domestic Product
GFC	Global Financial Crisis
ICT	Information and Communications Technology
IMF	International Monetary Fund
IT	Information Technology
KP	Knowledge product

LM	Line Ministry
MoF	Ministry of Finance
NZ	New Zealand
NZD	New Zealand Dollar
OCEC	Officials Committee on Expenditure Control
OECD	Organization for Economic Cooperation and Development
ODA	Overseas Development Assistance
PB	Performance Budgeting
PEMPAL	Public Expenditure Management Peer Assisted Learning
PFM	Public Finance Management
PM	Prime Minister
PPB	Program and Performance Budgeting
PPBWG	Program and Performance Budgeting Working Group
QALY	Quality Adjusted Life Years
RGPP	Révision générale des politiques publiques (General Revision of Public Policies)
RSR	Rapid Spending Review
RT	Review Team
SA	State Agency
SBO	Senior Budget Officials
SNG	Subnational Government
SR	Spending Review
UK	United Kingdom
US	United States
WAEMU	West African Economic and Monetary Union

Executive Summary

In this paper the concept of *rapid* spending reviews (RSRs) refers to expenditure review exercises that are designed and implemented to fulfill the need for fast responses to immediate fiscal pressures and challenges. RSRs may have elements of traditional spending reviews but they are simpler and more streamlined, allowing for quick action and results. The concept of RSR refers to situations in which the review would need to take place outside the regular budget cycle. Nevertheless, countries may consider incorporating this methodology in the regular budget process for the entire period during which the economic and fiscal pressures arising from the pandemic or other imperatives are expected to have a major impact on budget allocation and implementation processes. It can also be used for any other needs for savings/reprioritization or general efforts to increase spending effectiveness.

A rapid spending review has certain commonalities with traditional spending reviews. Commonalities include (i) *the objectives of the review*, i.e., savings and improved prioritization and, ultimately, aggregate fiscal control and greater effectiveness of expenditures; (ii) *the perspective* of the review, as it looks beyond linear expenditure cuts through a wider policy lens to consider efficiency, effectiveness, value for money and sustainability of policy interventions and (iii) *focus on baseline* rather than *incremental expenditures*.

The RSR instrument, as described in this report, has several distinctive features:

- The review must be completed within a much shorter time than a traditional SR (typically 1-3 months)
- There is no time for in-depth analysis, and the processes and the tools used are less sophisticated than in a traditional SR
- RSR is primarily intended for use outside of the regular budget cycle
- RSR is comprehensive rather than targeted, as there is no time in the design stage for political and technical discussions on the scope and focus of the review
- The need for RSR usually arises in situations which may require *a quick review of Government priorities*. A traditional SR, in contrast, aims to review the effectiveness of government spending from the standpoint of existing priorities established as part of the regular strategy-making process.

This Knowledge Product (KP) provides case studies of accelerated spending reviews from New Zealand (NZ) and the United Kingdom (UK) drawing conclusions on the process of the RSR. It suggests that the key spending priorities[1] should be established and communicated at the outset of the process. The process is clearer and may be more efficient when there is a predetermined quantitative target for savings. The paper outlines a possible process for the conduct of RSR that can be adopted and applied by PEMPAL countries.

RSR uses a set of simpler tools and techniques drawn from the full spending review toolkit. These include trend analysis, benchmarking, analyses of budget composition and budget deviation, and a light review of cause-effect links. The results of prior analysis, if available, can also be used in an RSR. The paper suggests that combining the efficiency and strategic perspectives in the review will deliver the biggest efficiency gains. It provides questionnaires and templates for the review and templates for the RSR report.

In a horizontal perspective, international experience suggests that focusing on administrative budgets of line ministries / state agencies in RSR offers the potential for significant savings, with the least impact on the quality of service delivery. An extremely cautious approach in the treatment of public service pay should limit potential savings to new hires, pay increases, bonuses, and voluntary waivers. All other reductions in public service pay should be based on a thorough functional review. A selective approach for decisions on the cancellation and postponement of capital projects should be based on criteria proposed in the KP.

[1] In this context: spending areas to which money will be directed to reprioritize.

An RSR can be a smart and quick way of addressing the immediate fiscal pressures but it will hardly provide a magic solution to all problems; therefore, additional budgetary and non-budgetary measures may be needed to achieve aggregate fiscal control. Budgetary measures include spending on health care and social spending, transfers to economic and physical entities, wage and unemployment subsidies, tax cuts or deferrals. Non-budgetary fiscal measures have included fiscal backing for central bank programs, credit guarantees and incentives for commercial banks and financial institutions to defer loan and interest repayments for affected businesses and individuals. Issuance of loans, credit guarantees, and equity financing is a fiscally neutral way of funding state and privately owned enterprises during crisis. The use of these instruments, however, requires careful assessment and monitoring because of direct fiscal implications in case of default.

In a broader perspective a number of critical steps can be taken to maintain fiscal sustainability and enhance the capacity to react to shocks. During crisis, a temporary relaxation of fiscal rules supported by a corrective medium-term fiscal plan could aid counter-cyclical economic policies. However, it is of utmost importance that the non-compliance with the fiscal rules is directly related to overcoming the consequences of the crisis and it is not used for loosening of the fiscal policy in general. Using contingency appropriations or reserve funds in more normal times (depending on the fiscal framework) could provide fiscal space and liquidity cushions to rapidly respond to emergencies as they arise. It is critical to have clear rules for accessing contingency funds and strong ex-post control arrangements. The global crisis resulting from the pandemic also prompts the need to develop institutional and human capacities in order to strengthen resilience to similar shocks. Capacity building is needed in performance budgeting and management, policy analysis, internal and external audit and ICT.

Recommendations

The KP provides recommendations regarding i) the tools and processes of rapid spending reviews and ii) expenditure areas on which to focus.

Recommendations on RSR tools and processes can be summarized as:

- Ensure high-level political support for the RSR process from the outset, across all key stages
- Engage line ministries (LMs) and State Agencies (SAs) in a dialogue with the Central Budgeting Authority (CBA)[2] and the government, so they have a chance to voice their points of view
- Prescribe the methodology and process for conducting a RSR in a government decree or legislation, including guidance on templates to be used.
- Establish and communicate spending priorities at the outset of the process and set out low priority areas to be considered for potential cuts
- Use simple analytical tools from the general toolkit of spending reviews for the conduct of RSR such as benchmarking, budget composition, and budget deviation analyses
- Combine strategic and efficiency perspectives in the review
- Involve external experts in the RSR to help with the use of analytical tools.

Recommendations on areas of focus can be summarized as:

- Use a comprehensive but cursory approach in the implementation of RSRs
- Look into administrative and operations costs of line ministries / state agencies (other than salaries and wages) to identify expenditure cuts -- they can potentially be the least painful
- Refrain from major cuts in public service pay but consider a limited set of temporary restraints in terms of new hires, bonuses, pay increases (except if it is for servants who are directly engaged with functions and responsibilities for overcoming the crisis), and voluntary waivers
- Use a selective and thoughtful approach in the decisions to cut or delay capital spending, considering the social and economic impacts of such a decision

[2] According to OECD definition, this is a public entity, or several coordinated entities at the central/federal level of government, responsible for the custody and management of the national/federal budget. In most governments, it is the Ministry of Finance.

Objectives and Methodology

Background

This paper is a knowledge product of the PPBWG for PEMPAL network countries. Launched in 2006, the PEMPAL network facilitates the exchange of professional experience and knowledge transfer among public finance management (PFM) practitioners across Europe and Central Asia countries. The network is organized around three thematic communities of practice (COP) focusing on budget, treasury, and internal audit issues. The key objective of the budget COP (BCOP) is to strengthen budget methodology, planning, and transparency in member countries. BCOP members represent 21 countries: Albania, Azerbaijan, Armenia, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Republic of North Macedonia, Moldova, Montenegro, Romania, Russian Federation, Serbia, Tajikistan, Turkey, Ukraine, and Uzbekistan.

The purpose of this knowledge product (KP) is to help PEMPAL network countries conduct rapid spending reviews (RSR) as a response to economic and fiscal crises such as that triggered by the COVID-19 pandemic. The KP focuses primarily on the use of spending reviews as a tool to carry out expenditure cuts and realignment/reprioritization to meet short term needs arising from emergency situations. It also refers briefly to other tools and techniques that create additional fiscal space; these tools may be used in addition to or as an alternative to spending reviews.

The KP looks at similarities and differences to traditional spending reviews (SR) to help provide a clear understanding of the RSR concept. It also looks at critical success factors in the conduct of spending reviews, and their possible adaptation to RSR. In parallel, the paper examines international experiences in carrying out shorter expenditure reviews, to identify approaches that are relevant to RSR and applicable to PEMPAL countries.

An Overview of Spending Reviews

The origins of spending reviews go back to the 1970s, a period of economic recession, growing prices, and global oil shocks. Their emergence is linked to the need to manage fiscal pressures. Early attempts at spending reviews included zero-based budgeting[3] in the United States (US) in late 1970s. In Europe, the first SRs were carried out in 1980s and 1990s, triggered by fiscal crises in a number of European countries (e.g., Netherlands, Sweden, Denmark). The global financial crisis (GFC) of 2008-2009 triggered a new wave of interest in spending reviews. In times of crises, spending reviews focused mainly on delivering savings and efficiencies. In contract to this, in times of fiscal surplus and greater macro-economic stability, a primary purpose of spending reviews was to ensure value for money and sustainable fiscal management to build buffers for less favorable times.

Approaches used in the design and implementation of SRs vary significantly across countries and there is no single, commonly agreed definition of the term. OECD defines it as "a process for identifying and weighing saving options based on the systematic scrutiny of baseline expenditure." According to OECD, two key objectives of SRs are achieving aggregate expenditure control and improving expenditure prioritization. The definition of SR is evolving, and the OECD is currently working on a revised definition within OECD Senior Budget Officials' Network for Performance and Results.[4]

Spending reviews can be classified into two categories based on their scope: comprehensive and selective (or targeted). Contrary to what may be inferred by its name, a comprehensive review does not necessarily study all expenditures. Rather, it looks at all line ministries (LMs) / state agencies (SAs) to identify the most important

[3] The approach came from the private sector where it involved analyzing and justifying all expenses and establishing costs from a zero base for all programs and functions (rather than in reference to previous budgets).

[4] The new definition will be published with a document on good practices on spending reviews in 2021.

areas of potential savings or reallocations. In a selective or targeted review, the list of topics or areas to review is determined ex-ante. Another way to look at the scope and focus of spending reviews is to distinguish between horizontal and vertical reviews. Vertical reviews focus on individual ministries, administrative units, or organizations. Horizontal reviews examine cross-cutting issues and topics involving program reviews, process reviews, and an across-the-board examination of specific expenditure categories (for example, personnel expenditures, subsidies, capital expenditures).

Spending reviews have been institutionalized in the public financial management (PFM) framework of several OECD countries where they are carried out on a regular basis. They inform decisions on medium-term expenditure allocations to ministries / state agencies. The most common and effective process for SR is a joint (CBA) /line ministry effort, with high level government leadership at key decision points.

A spending review is a major instrument for wider policy evaluation and may use a variety of tools and techniques. These techniques may include but are not limited to benchmarking, budget composition, deviation and trends analyses, cost benefit and cost effectiveness analyses, organizational and business process reviews, IT and systems gaps analysis, regression analysis, etc. The World Bank uses its own model of spending review called Public Expenditure Review (PER) as a core diagnostic tool to evaluate the efficiency of public finance management in partner countries and inform future government spending decisions.

Research[5] has identified a set of critical success factors that ensure the efficiency of spending reviews. These factors include: (i) a strong signal from political leadership about its ownership and interest in the review; (ii) a clear message at the outset of the SR process on spending priorities and the indicative level of savings; (iii) a participative, fair, and transparent process; (iv) links and alignment with the budget process, and (v) a multi-year budget framework. The main challenges for the implementation of SR are the lack of good performance data and capacity constraints.

Methodology

The paper reviews the international experience in spending reviews by focusing on aspects most relevant to the proposed RSR concept. Similarities and differences to traditional SRs are examined to help provide a clear understanding of the concept. Key success factors of SRs, their main elements, methodologies, and tools are studied for consideration and possible adaptation in the implementation of RSR. In parallel, the paper examines the international experience in running more streamlined processes of expenditure review, to offer methodologies and tools that can be used by PEMPAL countries in a rapid expenditure review exercise.

The KP also looks briefly at alternative measures to balance budgets, provide fiscal stimulus, and free up resources for funding additional expenditure pressures. Alternative measures include fiscally neutral instruments through which the government can inject resources into the economy or help sectors attract funds from quasi-fiscal or extra-budgetary sources in case of urgent need. Issues relating to revenue management are outside the scope of this paper.

The study of international experiences is based largely on desk research. The scope of country experiences that have been considered is broad, but the focus is on OECD and PEMPAL countries. The paper has also been informed by two brief surveys on budget balancing measures conducted in 2020 which provided information from thirteen PEMPAL countries.[6] In addition, selective interviews with three officials from New Zealand and an official from Turks and Caicos[7] were conducted. The choice of specific experiences to explore in this way was informed by expert judgement and consultations with peer consultants.[8] Finally, the paper considers and incorporates available advice from the World Bank, OECD, IMF, EC, and other international organizations on possible effective tools for quick expenditure analysis and other measures to cope with the current and foreseen fiscal pressures arising from the pandemic.

---

[5] Sources: "Spending Reviews in OECD Countries, Towards Good Practices" (version October 2019), OECD, by Wojciech Zielinski, Álfrún Tryggvadottir and Edwin Lau; Paper on Spending Reviews, OECD, written by Marc Robinson for the 3'rd Annual Meeting of OECD Senior Budget Officials, OECD Conference Centre, Paris, 3-4 June 2013, Public Governance and Territorial Development Directorate Public Governance Committee, GOV/PGC/SBO(2013)6; Country case studies.

[6] 7 countries (Azerbaijan, Belarus, Bulgaria, Croatia, Kosovo, Russian Federation and Serbia) responded to the first survey conducted in the summer of 2020 and 12 countries responded to the second survey conducted in September 2020 (Albania, Armenia, Azerbaijan, Belarus, Bosnia & Herzegovina, Bulgaria, Croatia, Kazakhstan, Kosovo, Moldova, Russian Federation, and Uzbekistan).

[7] The Turks and Caicos Islands are a British Overseas Territory consisting of two groups of islands in the Lucayan Archipelago of the Atlantic Ocean and northern West Indies, the larger Caicos Islands and smaller Turks Islands. The residents of Turks and Caicos Islands have full British citizenship.

[8] Please see Annex 7, List of Persons Consulted.

The paper is structured in five main parts incorporating specific country illustrations, examples, tools and techniques. Part 1 discusses the origin, concept, and objectives of spending reviews. It also examines the key enablers and success criteria of effective SRs. Part 2 looks at the concept and scope of rapid spending reviews. Part 3 examines and proposes processes, tools, and methodologies for the implementation of RSRs. Part 4 provides a set of recommendations / menu of options to inform expenditure review and budget processes in PEMPAL countries. Part 5 provides a wider perspective to crisis response by looking at alternative fiscal stimulus measures and ways to strengthen resilience to shocks.

Recommendations / options provided in this paper (Part 4) concern two key aspects of RSR:

- Setting up a methodology/process for quick identification of budget balancing measures on the expenditure side
- Providing ideas/advice on expenditure areas/types to consider for potential expenditure cuts, i.e., which are the specific categories of expenditure that can potentially become an object for a horizontal review in RSR

Brief guidance on the process and methodology for RSR and specific tools, templates and questionnaires are also provided in annexes to the main report.

- **Annex 1** provides a brief overview of analytical tools used in policy evaluations and spending reviews, as one of its key instruments
- **Annex 2** provides an extract from the UK's 2006 Pre-Budget Statement which set out priorities and targets guiding the Comprehensive Spending Review (CSR) 2007
- **Annex 3** provides the guidelines for baseline alignment proposals used in New Zealand for 2010 budget
- **Annex 4** provides a possible template for RSR report
- **Annex 5** incorporates the Terms of Reference for the conduct of baseline review by the Ministry of Social Development of New Zealand in 2019
- **Annex 6** suggests a template that can be used in RSR for the analysis of proposed savings / expenditure cuts
- **Annex 7** provides the list of persons other than the PPBWG resource team consulted in writing this paper.

PART 1.

SPENDING REVIEWS: CHARACTERISTICS, TYPES, AND SUCCESS CRITERIA

1.1. A brief history of spending reviews

The origins of spending reviews go back to the 1970s, a period of economic recession, growing prices (referred to as "stagflation"), and global oil shocks. The 1970s saw a deterioration of fiscal balances in many OECD countries, including USA, New Zealand, Australia, Canada and European countries, a trend that with some variations continued through early 1980s. Stagflation raised the need for growth-friendly economic policies and fiscal stimulus measures, and monetary policies aimed at controlling inflation and excessive exchange rate movements. It became evident that fiscal and public expenditure management needed to be revamped to ensure greater sustainability, efficiency, and effectiveness.

Early attempts at spending reviews included the introduction of zero-based budgeting in the United States in the late 1970s. Agencies were expected to set priorities based on program results that could be achieved at alternative spending levels, one of which was below current funding.

The conduct of SR in Europe goes back to the 1980s and 1990s. At this time the Netherlands, Sweden and Denmark initiated public expenditure reviews. The Netherlands developed a comprehensive spending review (CSR) in 1981. Analogues of rapid review were implemented in the preparation of the "Mother of All Budgets," Budget 1991 in NZ.[9] UK carried out SRs in the early 1980s, but it mostly focused on allocating incremental increases in expenditures rather than identifying saving options. The first spending review in the UK which examined baselines was the Gershon Efficiency Review of 2004. In Finland, the first SRs (called Productivity Programmes) started the same year.[10]

While during periods of macro-economic stability the primary purpose of SRs was to assess value for money and promote sustainable fiscal management to build buffers for less favorable times, the global financial crisis of 2008-2009 triggered a new wave of interest in spending reviews. The use of SRs not only started to increase in the OECD but also spread to other countries. SRs are increasingly introduced and applied in the Eastern Europe, Caucasus, and Central Asia (EECCA) countries. To respond to the immediate fiscal pressures and expenditure consolidation needs, some countries introduced simpler and more streamlined processes for expenditure review, for example, the budget alignment process in New Zealand in 2009.[11] More recently (prior to the pandemic), the focus of spending reviews in OECD had shifted to effectiveness as opposed to the times of GFC when savings and re-prioritization were the primary goal.

1.2. The concept, objectives, and types of spending reviews

Approaches used in the design and implementation of SRs vary significantly across countries and there is no single, commonly agreed definition of the term. The EU defines an SR as a coordinated, in-depth analysis of baseline expenditures with the prime objective to detect efficiency savings and opportunities for cutting low-priority or ineffective expenditures.[12] The concept and its definition keep evolving and the OECD is currently working on a revised definition within Senior Budget Officials' Network for Performance and Results. There is growing recognition of the SR as a tool for developing policy options based on expenditure analysis and linking them to the budget. OECD defines it as "a process for identifying and weighing saving options based on the systematic scrutiny of baseline expenditure."[13]

According to OECD, two key objectives of spending reviews are achieving aggregate expenditure control and improving expenditure prioritization. Indeed, in many countries SRs have been used not only to achieve savings but also to decide on expenditure re-allocation options in line with the government's current or emerging priorities. This is particularly true for the ongoing situation with the pandemic which has created

---

[9] The Mother of all Budgets was the nickname given to the 1991 NZ budget. It was the first budget delivered by the new National Party Minister of Finance Ruth Richardson that supported her economic reforms often referred to by the media as "Ruthanasia".

[10] Source: Public Spending Reviews: design, conduct, implementation; Caroline Vandierendonck, Economic Papers 525 | July 2014, European Economy, EC, ISSN 1725-3187 (online), ISSN 1016-8060 (print)

[11] Please refer to Part 3, Section 3.2

revenue shortfalls due to the response measures taken (lockdowns, restrictions imposed on certain types of activities) and additional pressure to spend, particularly in the health and social sectors. Another important objective of a SR is improving the effectiveness of governments' policies and programs, increasingly being recognized in discussions within the OECD.

To put it into a slightly different perspective, the purpose of spending reviews is either to achieve efficiency gains or increase the impact of expenditures through greater strategic alignment. Accordingly, the SR may be referred to as an efficiency or strategic review. It is not unusual for a single SR to combine these two perspectives, for example, in the case of the budget alignment process in New Zealand. Other examples are the 2015-2017 and 2017-2019 SRs in Ireland, 2019 SR in Latvia, etc.

SRs can be classified into two broad categories depending on their scope: comprehensive and selective (or targeted). Contrary to what may be inferred by the name, a comprehensive review does not study all expenditures. Rather, it looks at all LMs/SAs to identify the most important areas of potential expenditure cuts or reallocations options. In contrast to this, in a "selective" or targeted review the list of topics or areas to review is determined ex-ante. Examples of targeted reviews include organizational reviews in Canada, baseline reviews in NZ, special reviews in some OECD countries[14], such as Denmark, UK, NZ, USA. Examples of comprehensive reviews include bi-annual or tri-annual reviews in the UK, 1994 Program Review in Canada, Capacity Building Spending Review in Ireland in 2008-2009, Canada 2020 Tax and Spending Review, and annual spending reviews in Latvia.

Another way to look at the scope and focus of SRs is to distinguish between *horizontal* and *vertical* reviews. Vertical reviews focus on individual ministries, administrative units, and organizations. Horizontal reviews examine cross-cutting issues and topics. They can involve program reviews (which seek to identify strategic and/or efficiency savings in specific programs) and process reviews (focused on business processes), and an across-the-board examination of specific expenditure categories (e.g., employee compensation, procurement, asset management costs). It is not unusual to combine both horizontal and vertical perspectives in a single SR, like in the case of 1990 SR in NZ and the Canadian model of SR used since 2016.[15]

The different types of spending reviews are summarized in Table 1. The table identifies the main categories of spending reviews across 7 dimensions.

Table 1. Main Dimensions and Categories of Spending Reviews

Dimension / factor	Types of SR
Coverage	Comprehensive vs selective
Regularity	Regular or ad hoc
Links with the budget	Cyclical or mainstreamed into the budget process
Span	Horizontal or vertical
Focus	Efficiency or strategic
Time factor	Traditional or rapid

[12] European Economy, Public Spending Reviews: Design, Conduct, Implementation by Caroline Vandierendonck, Economic Papers 525, July 2014, EC, Economic and Financial Affairs, ISSN 1725-3187 (online), ISSN 1016-8060 (print)

[13] "Spending reviews in OECD countries: towards good practices" (DRAFT, version October 2019)

[14] Special reviews are initiated when there is suspicion or evidence of major issues in policy or performance in specific areas or institutions, reported by media, audit or other means.

[15] The approach is descried in "Canada: Spending Reviews: Central Agency and Departmental Perspectives", presentation by Hilton Lac-Leamy, November 22, 2018, Financial Management Institute

The World Bank uses its own SR model called "Public Expenditure Review" (PER) as a core diagnostic tool to evaluate the effectiveness of public finances in partner countries and inform future spending and reform decisions. PER is a highly flexible tool which responds to the government concerns and priorities in public spending and revenues. PER analyzes government expenditures over a period of years to assess consistency with policy priorities and the results achieved. As opposed to SRs used by OECD countries it does not pursue the objective of short-term expenditure cuts / economy but shares the objectives of improving expenditure efficiency and effectiveness. PER is typically limited to a sector. It may look at issues that SR does not typically examine such as macro-fiscal framework and poverty and equality impact of government spending.

1.3. An overview of methodologies, processes, and tools used in SRs

A spending review is a major instrument of wider policy evaluation and may use a variety of policy evaluation tools and techniques. Tools commonly used in a spending review may involve value for money and efficiency reviews, cost benefit analysis, cost utility analysis, data envelopment and regression analysis, functional reviews, and organizational assessments, to name a few. In some cases, an SR may have a broader agenda of redefining the government's role and methods in serving the public as was the case with Program Review in Canada. Annex 1 provides a brief overview of analytical tools used in SR.

The World Bank PER uses many of the same tools, and it can also involve wider assessment of the impact of fiscal reforms on growth, poverty, and inequality. Some other instruments and techniques used by the World Bank in PER include public expenditure tracking surveys (PETs)[16] and Computable General Equilibrium (CGE) models.[17] The World Bank's own repository of public expenditure/revenue data called BOOST provides the most detailed level of disaggregated data of countries' Treasury Systems.

SRs have been institutionalized and used regularly in many OECD countries while several PEMPAL countries conducted them mostly on an ad hoc basis. OECD countries using such tools on a constant basis include Canada, Australia, New Zealand, UK, Ireland, Denmark, Netherlands and Latvia. Examples of PEMPAL countries which report having conducted spending reviews include Bulgaria, Russia, Croatia, Moldova, and Serbia. Most countries report undergoing reforms or plans for reforms to introduce or strengthen spending reviews.

In several OECD countries spending reviews have been integrated in the budget process. In some cases, the requirement to conduct a SR is codified in the organic PFM and / or budget law (as is the case in Latvia) while in most cases this requirement is not enshrined in primary or subordinate legislation but takes place as part of the regular budget process on an annual (e.g., Denmark, Netherlands, Germany) or cyclical basis (e.g., UK). The results are used to inform decisions on medium-term expenditure allocations to ministries / state agencies. In the UK, where spending reviews are conducted on a bi-annual or tri-annual basis, the Treasury[18] announces the launch of the SR and its specifics at the outset of the relevant budget cycle.

The most common and effective process for spending reviews is a joint CBA/LM effort, with the CBA leading at technical level with high level government leadership at key decision points. Parliaments may or may not be involved in the process. In PEMPAL countries it is common to have technical working groups as a discussion and brainstorming platform and in most cases coordinating groups which have coordinating functions. In the UK, the government involves the public in the spending review process, calling for proposals and representations on potential expenditure savings and re-allocations. Guidance for representations is available on the Treasury web site, with clear messages on the procedures and deadlines for submission.[19]

---

[16] Public expenditure tracking survey (PETS) is a review of sources of public funds and where they are dispensed. It enables the stakeholders to "follow the money", i.e. reconcile incoming funds with expenditures.

[17] CGE models are large numerical models which combine economic theory with real economic data in order to compute the impacts of policies or shocks in the economy. CGE models fit economic data to a set of equations which aim to capture the structure of the economy and behavior patterns and responses of agents (firms, households, government). This provides a framework to track the impact on key economic variables, including income and expenditure flows.

[18] Her Majesty's Treasury is the Central Budgeting Authority in the UK.

[19] https://www.gov.uk/government/publications/comprehensive-spending-review-2020-representations-guidance

Box 1. Baseline Reviews in New Zealand

The New Zealand Treasury[20] introduced a "baseline review" process, akin to spending reviews, as part of the annual budget cycle from 2018. Baseline reviews are completed jointly by the Treasury and the relevant ministry, with the aim of reviewing 90% of total government spending over a 4-year cycle.

The introduction of baseline reviews forms part of a wider public finance modernization project. The driver is to get a better understanding of how baseline funding is being used by agencies, so that the government can make better decisions on where spending can add the most value. The goal is to create lean, strong, efficient public institutions delivering valuable outcomes and outputs.

NZ has a unique system where baseline spending is "fixed". This means that there is little incentive to scrutinize baselines within the budget cycle, which makes up 98% of annual government spending. Instead, the budget cycle is focused on the 2% additional funding requests to assess if it is efficient and provides good value for money.

Baseline reviews are selective and usually focus on specific areas / sectors. The implementation typically takes around six months but longer or shorter timeframes are also not unusual. New Zealand is considering transitioning to sector level reviews, covering a third of government spending on an annual basis. Terms of Reference (ToR) for a baseline review carried out in NZ can provide a good idea on the scope and focus of the exercise and the approach used.[21]

Source: Interview with Shahlaa Al-Tiay, Senior Analyst, New Zealand Treasury.

In PEMPAL countries, the involvement of line ministries in an SR is generally more limited than in OECD and external expertise is more extensively used. This serves the right purpose, as internal capacity for the implementation of SRs has been quoted as one of the main challenges in PEMPAL countries (Please see paragraph 51, Figure 1). However, it is worth noting that several PEMPAL countries are working or plan to work towards strengthening SR capacities. Acquiring external expertise (especially from international organizations and institutions) for the implementation of a spending review is common in many OECD countries, albeit less extensively than in PEMPAL countries. In the Canadian model, for example, involving external experts is a typical feature of spending reviews.

1.4. Key success criteria and enablers

Spending reviews have delivered remarkable improvements in several countries in aggregate spending and fiscal position. For example, a program review in Canada delivered over 10% reduction in the absolute value of program spending[22] between 1994-95 and 1996-97 (down from 16.8% of GDP in 1993-94 to 12.1% in 1999-2000). Combined with favorable economic environment and structural reforms it enabled the government of Canada to eliminate its deficit in three years, leading to its first surplus budget in 28 years in 1997-98 and to 11 consecutive years of surpluses. The rapid review in NZ which led to the 1991 budget (also known as the "Mother of All Budgets") made a material contribution to an unprecedented fiscal surplus in 1994 that continued until the GFC. A double downgrade of the government's credit rating was averted and over time it

[20] The Central Budgeting Authority in the New Zealand.

[21] Source: https://www.treasury.govt.nz/information-and-services/state-sector-leadership/cross-agency-initiatives/baseline-reviews

[22] Program spending included all spending except interest on the public debt.

rose to triple A.[23] Significant efficiency gains were noted in some other countries.[24]

Research on spending reviews has identified several key success factors and challenges for their implementation. Planning is half the battle, so it is extremely important to get the design of the spending review right. It means clear communication of the purpose of the spending review, so that the focus can be maintained throughout the process. Decisions on the purpose, timing and scope of the SR need to be carefully considered to optimize resources spent and to deliver the intended results. Good coordination between the participants is also of significant importance.

A strong signal from political leadership about its ownership and interest in the SR is key to putting the process on the right track. A successful review exercise is often characterized by strong involvement of the political leadership in all key stages of the review (see examples from Canada, New Zealand, Latvia, UK). This is particularly relevant for those PEMPAL countries in which top-down management is very much part of public administration culture. But even in most decentralized jurisdictions the impetus and drive from the political level is key to ensuring buy-in at all levels of public service.

The government's message on kicking off the review process and its key spending priorities is crucial to get buy-in from all stakeholders and guide the efforts on savings and reprioritization. It may also be useful to indicate the size of savings to be considered during the review or to set a predetermined quantified target for savings and / or efficiency gains at the outset of the process so that LMs/ SAs understand the level of effort required and implications on the limits of expenditure available for their agency. An illustration of priorities guiding the 2007 CSR in the UK is provided in Annex 2 and targets for efficiency gains set for the Gershon Efficiency Review of 2004 are provided in Part 3 of this report. An example of a "softer" mechanism to achieve the required level of savings is the 2010 CSR in Netherlands in which line ministries / state agencies were requested to present different policy options, with at least one of them involving savings of 20%.

Irrespective of the type of the SR, a participative, fair, and transparent process is vital, as it helps to bring all parties on board. While the CBA is usually the primary gatekeeper in the budget and spending review process in many advanced frameworks, it is important that line ministries / state agencies have their say. Having LMs/ SAs come up with their own proposals is sometimes effective, though at other times it may fail to deliver the desired level of savings. At this stage, CBA's (or the government's) role and strong position in enforcing expenditure constraints is important.

Links and alignment with the budget process are also crucial, as the primary purpose of a SR is to revise budget expenditures.[25] Nevertheless, a SR may also deliver wider revisions in policy design, delivery channels, organizational structure, etc. (as was the case with the 1994 Program Review in Canada,[26] the 2008-2009 Capacity Building SR in Ireland and the Gershon Efficiency Review of 2004 in the UK[27]).

Clear decisions and organizational roles in the monitoring of the implementation of SR recommendations is the final building block of success. Needless to say, high level oversight of the monitoring process is essential. LMs have the primary responsibility for monitoring and reporting on implementation of measures adopted within spending reviews. CBA usually consolidates the reporting at the whole of government level, and then provides a summary report to the government.

Lack of good performance data has been quoted as one of the primary challenges for SRs both in OECD and PEMPAL countries. While a performance budgeting framework greatly facilitates the exercise, it is the quality of its implementation that is crucial. Lack of good performance data is a challenge even in countries that have been formally implementing PB for many years. Even in the most advanced jurisdictions issues with data quality arise. Nevertheless, the extent to which such issues affect the quality of SR is usually greater in PEMPAL countries where performance orientation is not entrenched in public administration culture and the budget process.[28]

[23] Source: Interviews with Mark Byers, Chairman of the Officials Committee on Expenditure Control at the time and Graham Scott, the then Secretary of New Zealand Treasury.

[24] France reported savings of €15 billion in 2011 as a result of RGPP 1 and RGPP 2. (RGPP stands for "Révision générale des politiques publiques", i.e. General Revision of Public Policies and it was launched in 2007). The two rounds of SR in Ireland in 2008 and 2011 resulted in savings of €7.8bn; the Netherlands reported €36bn in savings from the 2010 CSR. Savings from the 2010 UK CSR were as estimated at €81bn over the four-year period to 2014-15. Source: Spending Reviews, 28-May-2013, OECD, 3rd Annual Meeting of OECD Senior Budget Officials, GOV/PGC/SBO(2013)6

[25] Please see Section 1.2 for more detail.

[26] Program Review: The government of Canada's experience eliminating the deficit, 1994-99: a Canadian case study, Jocelyne Bourgon, Institute for Governance, The Centre for International Governance Innovation, 2009.

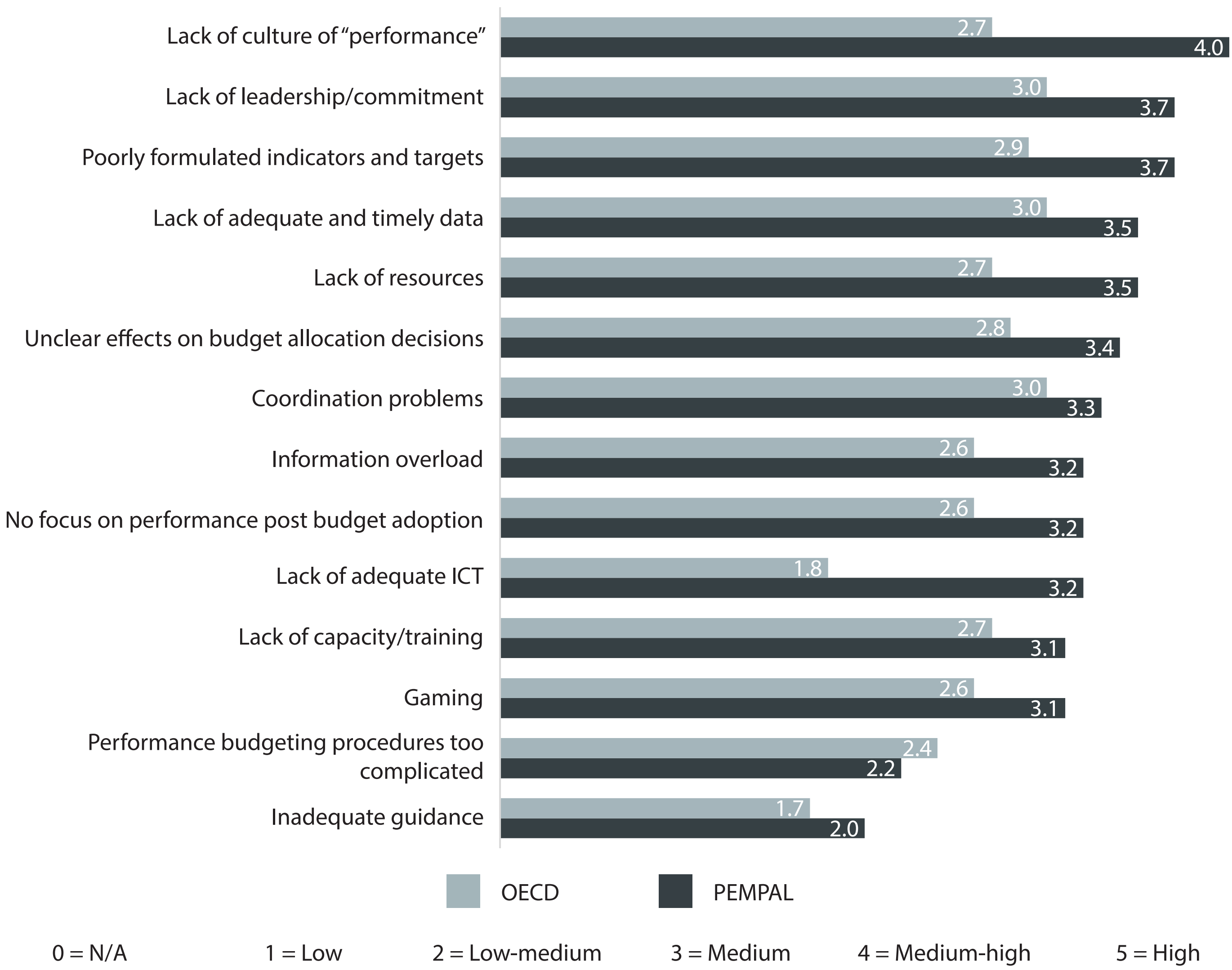
[27] Please see Section 3.3.2 for more detail.

[28] In most PEMPAL countries PB practices are largely presentational, whereby budget decisions are guided by inputs, with little use of information on outputs, outcomes and efficiency.

A multi-year budget framework is an important enabler of a successful spending review, as the latter is usually driven by the need to strengthen the fiscal position and maintain fiscal sustainability. For this purpose, it is useful to have the medium-term outlook in sight. While there are cases when urgency requires that the review exercise has a short-term focus (like in case of the 2019 CSR in UK, see Box 3), the need for infrastructure maintenance and development means that the multi-year perspective should not be lost. In the case of the UK CSR 2019 it was helpful to have multi-year capital projects already agreed upon, so that departments could focus on day-to-day spending. Under the conditions of COVID-19 pandemic the urgency of the need to review expenditures and pressures on immediate relief measures may dictate a one-year focus (although still some of the measures may be implemented for a longer period) and putting some capital projects on hold. Yet even this requires good and informed decisions and a strong investment management and evaluation framework.

Finally, capacity constraints have been reported as one of the main obstacles for the implementation of effective spending reviews not only in countries with relatively immature PFM frameworks but also in a few OECD countries. This relates to both staff availability and technical expertise. Figure 1 illustrates the most common challenges in the implementation of spending reviews in OECD and PEMPAL countries.

Figure 1. Main Challenges of Implementing SRs in OECD and PEMPAL Countries (weighted average)



Source: Performance Budgeting and Spending Reviews in PEMPAL countries, Current Practices, Challenges and Recommendations, Knowledge Product prepared by the Program and Performance Budgeting Working Group (PPBWG) of the PEMPAL Budget Community of Practice (BCOP), June 2020

PART 2.

RAPID SPENDING REVIEWS: CONCEPT AND SCOPE

2.1. The concept, purpose and uses of rapid spending reviews

The need for a rapid spending review arises when there are significant fiscal pressures resulting from unfavorable financial and economic developments and requiring rapid response. Another important consideration mandating the use of rapid expenditure reviews is that a full-scale spending review is very resource intensive at all levels. Capacity issues, particularly in countries with little or no experience in SR, are yet another factor that speaks to the benefit of simpler processes and approaches.

There is currently no standard definition or practice of a rapid spending review (RSR). Nevertheless, international experience offers some useful insights for the implementation of RSR, including cases when spending or expenditure reviews had to be conducted in a relatively rapid manner. These experiences have informed the development of the specific approach and methodology provided in the present knowledge product.

The RSR instrument proposed in this KP has been developed on the basis of a traditional SR, so the two instruments have many common features. Most of the principles and criteria that have proved to be essential for the success of traditional spending reviews (discussed in Section 1.4) are also relevant for a RSR. Importantly, the tools used in RSR are taken from the wider analytical toolkit applied in spending reviews.

The most fundamental commonalities between a RSR and a traditional SR which distinguish them from other policy and expenditure review instruments include:

- *The objectives of the review,* i.e., savings and improved prioritization and, ultimately, aggregate fiscal control and greater effectiveness of expenditures.
- *The perspective of the review,* as it looks beyond linear expenditure cuts and economy measures through a wider policy lens using the key criteria of policy evaluation such as efficiency, effectiveness, value for money and sustainability.[29] Both traditional and rapid SRs try to determine which cuts would be least detrimental or where spending would make a greater positive impact. In both cases the side effects of alternative spending options are considered.
- *Focus on baseline rather than incremental expenditures.* In a normal budget cycle, the focus is commonly on new funding initiatives and less attention is paid to baseline expenditures. One of the main purposes of a SR is to re-assess baselines.

The RSR instrument proposed in this knowledge product has several important distinctions from a traditional spending review:

- First and foremost, the need for quick action means that *a rapid spending review must be completed within a much shorter period* than a traditional SR. The latter can require up to a year both in design and implementation stages. A RSR would typically be completed within a period of one to two months, with a minimal design stage (1-2 weeks). The design stage would define the specifics of the particular RSR process (other than the pre-defined procedures and templates).
- *The level of analysis is not as in-depth as in the case of traditional SRs, the tools used are less sophisticated.* The in-depth analysis and most of the tools applied in traditional SRs (see Annex 1) are not feasible when the time pressure is great. It is for this purpose that we are suggesting a standard methodology of RSR and simple tools and templates to facilitate a quick but quality analysis.
- *The processes are simplified and streamlined* so that they can be completed within a shorter period. Processes, procedures and templates to be used in a RSR should be provided in legislation so that they can be applied automatically in the case of need. The role to propose the specifics of the RSR should be centralized to CBA with only brief and informal discussions with LMs/SAs if needed. In this KP we provide general guidance on the process and its participants, outlining the key stages and responsibilities (Section 3.2).
- The proposed instrument of RSR *is primarily intended for use out of the regular budget cycle*. In this sense it is clearly distinct from a traditional SR which can

[29] *Economy (Savings)* aims at reduction of the amounts spent for the needed resources. *Efficiency* reflects the relationship between services / goods delivered and resources consumed: the less the resources per the unit of services or outputs delivered, the higher the efficiency. *Effectiveness* assesses how successful the specific policy measure was in achieving the outcomes sought by government: the greater the improvement in outcomes the greater is the effectiveness. *Value for Money*, also referred to as "cost-effectiveness", assesses whether groups of policy interventions leading to the desirable goal/outcome are delivered with the minimum possible expenditures; *Sustainability* analysis examines whether the positive results and improvements can be sustained over a longer period of time.

be integrated into the budget planning process but can also be initiated at any other stage of the budget cycle. The need for a RSR often arises unexpectedly and at a stage when it cannot be included into the regular budget calendar. Nevertheless, it is possible to use the RSR instrument in the normal budget process when it is known in advance that tight expenditure control and optimization measures may be required during a particular fiscal year.

- RSR would typically be *comprehensive* rather than targeted, as there is no time in the design stage for political and technical discussions on the scope and focus of the review.
- The need for RSR usually arises because of emergencies, shocks and / or significant fiscal pressures: situations which may require *a quick review of Government priorities*. A traditional SR, in contrast, aims to review the effectiveness of government spending from the standpoint of existing priorities established as part of the regular strategy-making and / or budget processes. The time available for reprioritization is usually very compressed in case of RSR which means that much of the decision making should be centralized and consultations should be informal.

The summary of the core common features and distinctions between traditional SR and RSR is provided in Figure 2. These features are typical for most SRs and RSRs, but there may be specific exceptional cases where not all of the described features will apply.

Figure 2. Traditional and Rapid Spending Review: Commonalities and Distinctions

COMMONALITIES	**Objectives**	**immediate**: savings and improved prioritization **ultimate**: aggregate fiscal control and greater effectiveness of expenditures
	Perspective	Efficiency, effectiveness, value for money
	Focus	Review baselines as opposed to incremental approach

DISTINCTIVE FEATURES	**Traditional SR**	**RSR**
Completion time	Can take 1 year and more in the design and implementation stages	Should ideally be completed within 1-2 month, with minimal time for design (around 2 weeks)
Processes	Greater reliance on formal processes and procedures which typically require more time	Informal and streamlined where possible
Tools / analysis	In-depth analysis, can use a combination of simple and sophisticated tools (*cost benefit and cost effectiveness analyses, organizational and business process reviews, IT and systems gaps analysis, regression analysis, etc*)	Use relatively simple tools from the general toolkit of traditional SR: *benchmarking, budget composition, budget deviation and trend analyses, review of program objectives vis-a-vis strategic priorities*
Use in budget cycle	Can be integrated into the budget process and also used outside the regular budget planning cycle	Intended primarily for use outside the regular budget planning cycle
Scope	Can be comprehensive or targeted	Comprehensive
Guiding priorities	Usually assesses program effectiveness from the standpoint of existing Government priorities established as part of the regular strategy-making or budget processes	Is conducted in situations which may often require a quick review of Government priorities

International experience offers many case studies of spending reviews, but very few would qualify as *rapid* spending reviews, particularly in the sense used in this knowledge product. A quick spending review, referred to as the "budget alignment process", was carried out in NZ for the 2010 fiscal year with the goal of balancing the budget. At that time, the Treasury predicted that in 10 years public debt could rise to over 37% of GDP from 23.1% of GDP in 2009, assuming that the trends arising from the 2008-2009 GFC continued. The idea behind the exercise was that any new funding needs would have to be financed from savings and reprioritization only. The budget alignment process was carried out as part of the budget formulation work, involving a simple additional step in the budget calendar. The simple nature of the exercise and the fact that it avoided drastic changes in budget preparation activities makes it a useful tool for getting rapid results in times of immediate fiscal pressures.

Accelerated spending reviews were carried out in the UK in 2019 and 2020 to enable departments to focus on delivering Brexit[30] and COVID responses. Both reviews had a one-year focus, as opposed to the usual CSR which serves as a basis for setting multi-annual departmental expenditure ceilings in the UK. Details of those spending reviews are provided in Box 3.

2.2. The scope and focus of rapid spending reviews

Getting the scope and focus right at the outset of the RSR process is essential to minimize and justify the cost versus the benefits. In a traditional SR there is plenty of time to make balanced and well-informed decisions on the scope and focus of the SR and to consult widely on the matter. In contrast, rapid reviews suggest that time for design stage is minimal and that the choice of areas to focus might be driven by the "least detrimental" rather than "most effective" principle.

As mentioned in Section 2.1, the RSR proposed in this KP is comprehensive which means that all line ministries / state agencies participate in the RSR. Such an approach minimizes the time needed for the design stage and for making decisions on the areas to target. Thus, the collaborative process for a traditional SR remains in the proposed RSRs.

Generally, the coverage of spending reviews may vary depending on circumstances but the focus of RSR would typically be narrow.

- A spending review can either focus only on budget resources or also involve extra—budgetary funds and / or mandatory expenditures (e.g., social security benefits). The importance of covering off-budget spending depends on its significance in terms of the size and source of funding. Certainly, time factor also plays a role, so in case of rapid reviews it will be useful to narrow the scope.
- A spending review may focus only on the central government budget or also involve sub-national governments (SNG). In the case of RSR the coverage would typically be narrow like in case of the RGPP in France which looked primarily at the personnel and operating costs of the central government.[31]

An important question in the design phase of a SR is whether to focus on either or both efficiency and strategic savings. Since the GFC, the tendency has been more in favor of combining strategic and efficiency reviews. It has become apparent that efficiency review alone will hardly deliver major expenditure cuts, and deliver them quickly (OECD, 2012a: 12). The experience shows that even a particularly in-depth efficiency review is unlikely to generate savings above 2% of government expenditures.

It is suggested that RSRs consider both the efficiency and the strategic importance of expenditures in making decisions on cuts or reallocations, since it has become apparent that combining these two perspectives delivers better results. Examples include 2010 UK CSR, which delivered cuts in departmental budgets (other than health and ODA) averaging 19% over four years, the first Comprehensive Expenditure Review (CER) carried out in Ireland in 2011 which resulted in savings of €7.8 billion mid-2013, and the Canadian Program Review of the mid-1990s which cut spending around 10% over two years (Bourgon, 2009).

[30] The SR process started in July 2020 and the report was published on November 25.

[31] From this perspective, the decision on coverage also depends on the extent to which public administration in a particular country is centralized or de-centralized and the relative size of SNG budgets. In highly centralized countries, like Armenia, where SNG spending is relatively small, the RSR would be limited to the central budget. For large federal states, such as, e.g., Russia, Canada, US, SRs will either focus on the federal budget or on individual states' budgets, as a country-wide spending review would most likely not be feasible, particularly if we are talking of RSR. In unitary states that have a significant amount of expenditures (such as health, education, social and capital spending) running through sub-national governments it makes sense to focus RSR on central government but also consider possible cuts in transfers to SNG budgets.

PART 3.

IMPLEMENTATION OF RAPID SPENDING REVIEWS

3.1. Approaches and challenges in PEMPAL countries in budget balancing in 2020

Budget balancing in PEMPAL countries has mainly involved expenditure cutting and restraint measures identified through the usual budget analysis process. Some countries initiated additional measures, such as review of government programs and performance targets (Russia and Belarus), review of public investment projects for optimization, establishment of a reserve fund to back up unforeseen expenditures, and revision of the methodology for calculating the limits for baseline expenditures (Russia). Azerbaijan considered a temporary relaxation of fiscal rule, to enable counter-cyclical growth-friendly capital spending. Bulgaria also made amendments to its budget balance and expenditure growth fiscal rules in order to allow exceeding the reference values in case of exceptional circumstances. Much of new expenditure pressures are being financed through increases in external borrowing, leading to greater fiscal deficits and public debt.

In 2020 expenditure cuts and restraint measures in PEMPAL countries focused on the following areas:

- **State agency administration (maintenance) costs.** This involved imposing restraint on expenditure growth for the acquisition of equipment and furniture (Belarus). Expenditure cuts were applied to such items as travel (Belarus), representative and promotional costs, and purchase of new vehicles (Kazakhstan). Kosovo imposed restrictions on new employment. Russia postponed reforms in public service pay and refrained from the usual practice of indexation of the wage bill of public servants.
- **New funding requests and cuts in discretionary spending.** For the 2021 state budget, Armenia exercised strict restraints in the approval of new initiatives. The 2021 budget was planned on the principle of rolling baseline, with reductions of discretionary recurrent expenditures. Russia applied a 10% across-the-board cut to discretionary expenditures which exclude equalization transfers, public service wages and remuneration, public debt servicing costs, transfers to state off-budget funds, government normative expenditures, and the maintenance of the judiciary.
- **Expenditures related to sport and cultural events and celebrations** which have been cancelled due to the COVID-19 pandemic (Belarus, Kazakhstan)
- **Public investments** (Azerbaijan, Kosovo, Albania, Moldova). Kosovo and Albania reduced capital spending by restricting the acceptance of new investment projects. Moldova restricted non-growth-friendly capital spending by declining requests for the acquisition of fixed assets not directly linked with economic infrastructure.

PEMPAL countries have not conducted full scale strategic and efficiency reviews in the 2020/2021 budget process for several reasons:

- Time pressure
- Lack of capacity
- Lack of methodology and supporting tools
- Resistance and lack of cooperation from line ministries
- Lack of regulatory framework to validate and support such reviews

3.2. Proposed process and tools of RSR

3.2.1. The RSR process

There are two basic characteristics of an RSR process: a tight implementation schedule and a relatively quick, streamlined process using the less sophisticated tools drawn from the toolkit of traditional spending reviews. Such tools can include questionnaires, brief templates for analysis, spreadsheets, and other relatively simple documents to be produced separately or as part of budget submissions. Incorporating these in automated software used for budget preparation could speed up the exercise, particularly if available in a live mode. In Section 3.2.2 we present a few good practice examples and suggestions of RSR tools that PEMPAL countries should consider.

While there is hardly an example of a spending review that can be closely identified with the proposed RSR approach, the study of international experience has provided useful insights for the design of the RSR instrument. One example of a successful quick spending review concerns the review carried out in NZ in 1990 for the preparation of the 1991 "Mother of All Budgets". A brief description of the process is provided in Box 2.

Box 2. New Zealand: Mother of All Budgets, 1991

The spending review was implemented within 3-4 months and was incorporated into the regular budget process.

The review process pursued two key objectives:

i. **To establish hard departmental baselines for the next three years to achieve a clear fiscal path and a shift in the fiscal track.** Once established, the departments had to live within the baselines over the three-year period. The only permissible adjustments were for inflation. There were also specifically indexed areas of expenditure, such as pensions.[32]

ii. **To make decisions on sensible savings.** This included potential savings on allocated and proposed capital expenditures.

Commitment of public service officials played a crucial role in the success of this exercise, since its ambitious timetable placed great demands on public servants' time. Based on anecdotal evidence, some key public officials engaged in the process had to work an average 12 -13 hours a day 7 days a week. The entire process was characterized by clear support from the Prime Minister, Ministers, and Chief Executives which helped to keep the momentum. There was a good level of acceptance that restraint was desirable coupled with the fact that no agency was exempt from sacrifice, so the process was perceived to be fair and equitable.

There was extensive external scrutiny of expenditure proposals from all departments.[33] Apart from the Treasury, the following entities were responsible for the scrutiny:

- The newly formed Officials Committee on Expenditure Control (OCEC) working with Treasury Ministers[34] and led by the Chairman of the Committee. OCEC was to identify three tiers of savings options, from those which could readily be achieved, through to those which involved more complex or legislative issues. The OCEC provided its recommendations to the Cabinet Committee on Expenditure Control (please see below). It continued its work for 3 years and reviewed all expenditure proposals going forward to the Committee.
- Treasury official Iain Rennie seconded to and acting for the Department of Prime Minister (PM) and Cabinet. His recommendations were endorsed by the Department of PM and presented to the Cabinet.[35]
- The State Services Commission (SSC) established in 1962 comprising a Chairman and Commissioner. The SSC was charged with overseeing, managing, and improving the performance of the state sector of New Zealand. Its role in the particular budget cycle was to review expenditure proposals from performance perspective. It presented its recommendations to the Cabinet through the Department of PM.

At the decision-making level, the following entities were involved:

- Cabinet Committee on Expenditure Control (CCEC) – a newly formed committee chaired by one of the Associate Ministers of Finance. Much of the real decision making fell to this Committee based on the

[32] However, some large spending decisions were still possible by the government even in the period of a maximum fiscal constraint, such as the building of the National Museum-Te Papa, dedicated to the culture of the native population of New Zealand, Maoris.

[33] In the NZ context a "Department" is the equivalent of a ministry / state agency.

[34] Minister and Associate Minister of Finance, Ministers responsible for Infrastructure, Revenue, State Owned Enterprises and Public Service

[35] The Cabinet of NZ is the government's decision making body comprised of senior Ministers and chaired by the PM. Seniority is determined based on track record, number of years in service and the portfolio of responsibilities. The Cabinet is accountable to the Parliament of New Zealand.

recommendations from the OCEC.

- Cabinet Policy Committee – chaired by the Prime Minister and responsible for decisions on major strategic issues and overall government priorities.

The processes for expenditure review were open and transparent. Departmental and Treasury officials met the Officials Committee together. The OCEC had secretarial and other support. Cabinet committee decision making processes were also open and transparent with departmental ministers and officials in attendance. OCEC officials attended all cabinet committees involved in making expenditure decisions for presentation to cabinet. There were opportunities for all parties to be heard.

Information was presented in a reasonably standard format, using elements of zero-based budgeting. Expenditure proposals included brief analyses of alternative implementation options at different funding levels and the related consequences in terms of output delivery and impact. Such analysis helped to build awareness about the implications of expenditure decisions. This level of precision was possible due to the availability of non-financial performance information in the budget process mandated by the Public Finance Act 1989.

In parallel to the main expenditure review process, there were targeted reviews of benefit[36] and defense spending; tax policy; an organizational review in the health sector and an assessment of the reserve bank mandate in the implementation of monetary policies.

The key features of the 1990 SR leading to success in the NZ case were:

- A transparent, open, and equitable process
- Buy-in from public officials backed by a strong leadership role of the government
- A recurring exercise over a period of three years integrated into the budget process
- Analysis of policy and implementation options at alternative funding levels in expenditure proposals (a feature of zero-based budgeting)
- A relatively simple format of analysis of expenditure options
- Establishment of hard expenditure baselines over the medium-term with some flexibility allowed to departments and the government
- Accompanying in-depth assessments in specific areas/ sectors with results reflected in the budget
- High morale in the public sector supported by a culture of acknowledgement, career growth, and personal development for good service and results

New Zealand faced fiscal pressures again because of the GFC; the Treasury initiated a budget alignment process for the 2010 budget to bring the fiscal trends back on a strong and sustainable path. It was a simple process that involved minimal changes in the budget calendar, with only one additional step in the process. The overview of the process is provided in the diagram below.

The key principle communicated to the departments at the outset of the budget process was that any new initiatives on the operational expenditures side would largely have to be funded from savings in baseline expenditures. The envelope for funding new initiatives was extremely limited and was largely allocated to the health sector and capital projects. Other than in the health sector, no additional funding was available to departments for operational expenditure: they were required to fund all their programs from existing levels of funding. An indicative capital allowance budget was designated within the new funding envelope for new capital funding requests.

[36] The 1991 Budget was described by Ruth Richardson in the news media as "the ... most brutal assault on the welfare state we have witnessed in New Zealand".

Figure 3. Introducing Baseline Alignment Phase in the Budget Process,[37] Budget 2010

Strategic Phase
September - December 09

- Premier House session on 12 October to discuss economic and fiscal strategies, and determine the policy priorities to be focussed on in B10.
- Indicative allocation of new funding determined in October 09.
- Vote Ministers who can't manage within baselines report back on 16 November 09 requesting additional funding.
- Cabinet allocates the new funding for B10 across votes on 14 December 09.
- The BPS sets out the economic and fiscal strategies, priorities and net new spending for B10.

Baseline Alignment

- Vote Ministers and CE's align baselines to give effect to the Government's policy priorities, and report back to BMs/ Cabinet by 8 March 10.
- Capital bids will be prepared based on policy priorities and CAM data, and submitted by 5 February 10.
- Treasury provides advice on the bids and Budget Ministers determine which are to be funded from the capital allowance.
- Budget Ministers develop an overall package, making cross-cutting tradeoffs as required and integrating other works streams (regulation, tax etc).
- Proposed package to Cabinet mid-April 10.

Production Phase
April - May 10

- No substantive change to the process used in previous years.
- ~~Continuing effects to improve the quality of performance information.~~

Update Baseline Relativities

- Multi-year rolling ECC work programme to establish relative priorities between areas of Government expenditure, based on 3-5 year economic and fiscal agenda.
- Reset baseline based on relative priorities.
- Use reset baselines to establish proportions for the allocation of new funding in future Budgets.

Source: New Zealand Treasury. B10 – Budget 2010, BPS- Budget Policy Statement, CE – Chief Executive, BM- Budget Minister, CAM – capital asset management, ECC – Expenditure Control Committee of the New Zealand Cabinet.

[37] In New Zealand, the fiscal year starts on 1 April and ends on 31 March. The figure in the red circle indicates a new step in the budget process implemented in the preparation of the 2010 Budget. The crossed-out bullet point indicates that the work on the improvement of quality of performance information which had been the usual part of the budget process in previous years was skipped in the preparation of 2010 budget, to allow more time to focus on re-prioritization and savings.

All departments were required to review their baseline expenditures in the operating budget and reorganize them in a way that was more efficient and effective and better met government priorities. Baselines were to be reset based on baseline alignment proposals to inform allocation of new funding in future budgets. Baseline alignment proposals were to be developed based on a standard template incorporating justification of proposed reallocation of baseline expenditures to new initiatives. The template provides a set of questions to guide the government departments' qualitative analysis justifying the proposal (provided in Annex 3).

The advantage of the baseline alignment process is that it can be highly effective in re-assessing funding priorities while also being simple and easy to apply to the RSR. The process (and the tools) can be modified and applied in PEMPAL countries to the regular budget process if the countries continue to face serious pressures and fiscal challenges. The approach can also be used for any other needs for savings/reprioritization or general efforts to increase spending effectiveness.

A review of the international practices in SR makes it evident that there is hardly any successful spending review in which the government did not set and communicate its key spending priorities and saving targets at the outset. This fact is also relevant for rapid spending reviews. An example of saving targets is provided in Section 3.3.2. Box 3 provides illustrations of priority statements from the UK, the 2019 and 2020 CSRs.

Box 3. Kicking Off Rapid Spending Reviews in the UK

2019 Comprehensive Spending Review

The purpose of the 2019 CSR was to ensure focus on delivering Brexit by departments. It was meant to set departmental day-to-day spending budgets for 2020-2021. Capital budgets used for long term projects such as infrastructure, were already in place for 2020-2021 at the time of the announcement of the accelerated SR.

The Chancellor of the Exchequer kicked off the process by announcing the key priorities for the 2020-2021 budget. These included schools and policing, health-related commitments, defense and Official Development Assistance (ODA). The Chancellor reiterated government commitment to keep borrowing under control and reduce public debt through continued compliance with fiscal rules.

2020 Comprehensive Spending Review

The 2020 SR built on three priority areas: 1) Providing departments with the certainty they need to tackle Covid-19 and deliver the government's plan to support employment; 2) Providing vital public services with enhanced support to fight against the virus; and 3) Investing in infrastructure to drive economic recovery and Build Back Better.[38]

Due to unprecedented uncertainty, the Chancellor did not fix a set spending envelope, but confirmed that departmental spending (both capital and resource) will grow in real terms across the CSR period to deliver on the commitments made at budget to level up and invest in the priorities of the British people.

Given the impact of COVID-19 on the economy, departments were asked to identify opportunities for reprioritization and savings. The Chancellor's letter to departments stated that in the interest of fairness, restraint in public sector pay awards needed to be exercised, ensuring that public sector pay levels retain parity with the private sector. Departments were required to provide evidence that they were delivering the government's priorities. An interim report of the Net Zero Review was published in November 2020, to be followed by a final report in spring. External stakeholders were invited to submit representations to feed into the SR.

Source: https://www.gov.uk/government/publications/spending-review-2020-documents/spending-review-2020, https://www.gov.uk/government/publications/spending-round-2019-document/spending-round-2019

[38] https://www.gov.uk/government/news/spending-review-to-conclude-late-november . "Build Back Better" is a slogan used on the website.

The discussion and examples above provide a background for a RSR process to be considered by PEMPAL countries for adaptation and use. The term is used in the sense defined in Section 2.1 and refers to a review organized outside the regular budget cycle. Once the review process is completed, the adopted recommendations should feed into the budget through regular arrangements prescribed in legislation. This could include expenditure virement / re-allocation arrangements or the adoption of supplementary budgets using emergency clauses if such exist or are suitable for the circumstances.

The approach and process for a RSR could be prescribed by countries in advance, through a government decision or legislation. It would typically provide the general methodology and templates for RSR report (please see Annex 4 for a suggested template) and for the Terms of Reference (TOR) to be developed for each individual review (please, see Annex 5 as the sample of TOR's scope). In addition, the entity leading the RSR would issue guidelines or instructions specific to each individual RSR at the outset of the review process. The general content of the instructions could be prescribed by legislation or decree but the specifics (e.g., the context, calendar, special requirements, areas to focus, etc.) would typically be different in each case. Box 4 outlines the main guidance documents of SRs developed in OECD countries.

General guidance on the process of a RSR proposed for PEMPAL countries is provided in Box 5. Table 2 provides an illustration of key actors and decisions made.

Box 4. Guidance Documents Related to SR Used in OECD Countries

There are three types of guidance documents of SRs that are used by OECD countries:

- **General Methodology:** Centrally developed standards that apply to the SR framework to coordinate and standardize procedures across the analyzed policies and spending. Although there is no one-size-fits-all methodology for spending reviews, this refers to the whole SR cycle including selection criteria, objectives and scope, the governance arrangements, review methods, the implementation of spending review decisions and their integration in the budget process.
- **Terms of Reference (developed for each individual SR separately):** The objectives of a SR are framed within the terms of reference. Although the terms differ between spending reviews, it will still contain standard elements to express the arrangements that are to prevail for interactions between the decision-making groups and resources assigned to the SR. Standard elements typically include: context, objectives, governance, scope, preparation of guidance and reference materials, access to information, deliverables, budget, timetable, and milestones.
- **Guidelines for line ministries/state agencies:** A document that provides practical information on the process of SR, and ensures the process is streamlined between different reviews. Contrary to the SR methodology, this is an informal document issued by the entity leading the SR (often the CBA).

Source: Glossary developed for 2020 OECD Spending Review Survey which is currently in progress.

Box 5. Proposed Process for a Rapid Spending Review for PEMPAL Countries

Stages

The process of a rapid spending review consists of two stages:

1. Setting the preliminary framework and the key parameters of the review;
2. Completion of the review and approval of expenditure cuts/reallocations.

Deliverables

Stage 1 should deliver a statement endorsed by the government and communicated to all line ministries / state agencies and / or budget users. It should contain a clear message on the Government's preliminary position regarding issues which could have a bearing on the level and / or allocation of expenditures.

a. The revised expenditure priorities for the budget vis-à-vis the recent developments;

b. The indicative level of expenditure cuts (in % of total expenditures) if applicable;[39]

c. Priority areas to be reviewed for potential cuts / reallocation and / or sectors and areas exempt from cuts if any.

The statement should also contain the technical aspects of the review process endorsed by the Government:

d. The broad timetable and key milestones of the RSR process;

e. Any special requirements different from what has been set in legislation or government decision.

The Terms of the Reference for the RSR will be approved at the end of Stage 1 kicking off Stage 2 of the review process: the implementation stage.

Stage 2 should deliver:

f. Recommendations for expenditure cuts and re-allocations;

g. A brief report justifying the recommendations;

h. Decisions on expenditure cuts to be reflected in the budget

The main actors in the RSR

The government
The government will decide on items a) to e) based on recommendations from the CT (please see below). The CT will develop its recommendations based on in-year reports on the execution of revenues and expenditures, sectoral knowledge, informal discussions with LMs/SAs and consultations with Development Partners (DPs) on potential support.

Coordination Team (CT)
The Coordination Team will be headed by Deputy Minister responsible for budget planning and involve the Director/ Head of the Budget Planning Unit, supported by budget analysts[40] who will discuss issues with line ministries if needed. In addition to recommendations on a) to c), CT will communicate the fiscal context to LMs/SAs, propose key dates for the RSR to the government, prepare the Terms of Reference for the review, advise and support the review teams throughout the process, review the teams' proposals and prepare a summary RSR report for the government. It is a good idea to have at least one external expert supporting the CT.

Review Teams (RT)
Review Team for each policy or thematic area will be set up including LM officials responsible for budget planning and policy coordination and CBA budget analysts. External consultants can be involved to support the process. These teams would need to act in a flexible manner and combine remote communication with meetings if necessary. The RTs' roles are to evaluate the spending in their areas, identify and propose savings and reallocation options, and prepare the SR Reports and Action Plans for their areas. Cluster meetings with groups of related line ministries / state agencies can be set up to speed up the process and ensure coordination. Proposals for each review area will be endorsed by the relevant DM in the line ministry.

[39] As noted earlier, a pre-determined quantified or indicative savings target can make the SR more effective and efficient by signaling to LMs/SAs the desired level of expenditure reduction. However, such a target does not necessarily have to exist.

[40] Official within the CBA responsible for the analysis of submissions from line ministries/ state agencies/ budget users for specific sectors. In some jurisdictions the position is referred to as "sector specialist"

Table 2. Overview of Proposed Organization and Responsibilities in the RSR Process

Organization	Membership	Responsibilities
Government	Prime Minister, Line Ministers and Heads of selected State Agencies	Decisions on: • Revised expenditure priorities • Savings target and exemptions, if applicable Approval of: • RSR key dates • Review recommendations • Special requirements for the process
Coordination Team	Deputy Minister responsible for Budget Planning, Director/Head of the Budget Planning Unit, budget analysts, consultant	• Make recommendations on indicative level of savings, priorities and exemptions; • Propose key dates for the RSR to the government • Communicate the fiscal context to line ministries / state agencies • Advise and support the review teams throughout the process • Prepare ToR for the review • Review RTs' proposals, prepare a summary RSR report for the government
Review Teams	Deputy Director/Head of the Budget Planning Unit (CBA), budget analyst CBA, budget planning official (LM) and policy coordination official (LM), Consultant (CBA), Consultant (LM)	• Review spending and identify savings • Prepare Review Reports and action plans

3.2.2. The RSR tools

The compressed timetable for RSR means that a simplified analysis is needed, in contrast to the sophisticated tools often used in traditional SRs. However, if the review is to deliver more than across-the-board expenditure cuts and identify areas where funding reductions/reallocations would have the least detrimental effect on services and outcomes, it needs to consider both financial and non-financial performance.

Table 3 below provides an overview of different tools that can be used in a RSR from the traditional spending review toolkit. These tools are used when the focus is on allocative and technical efficiency. A RSR may also look at quantitative and qualitative performance data to evaluate the impact of government interventions and identify cause and effect links especially when performance information with good quality is available from budget documents in program format. This will be a lighter, cursory assessment of policy and program effectiveness rather than a comprehensive analysis.

Table 3. Summary of Analytical Work for Rapid Spending Reviews

Problem area	Examples of possible scenarios	Types of analysis
Effectiveness	A government program or activity is not achieving its intended objectives	Analysis of quantitative and qualitative performance data
Allocative efficiency	Activities not aligned with government strategies or policies Low socio-economic returns on public funds	Trend analysis; profile analysis; comparing / benchmarking budget allocations and performance; budget composition analysis, review of program objectives and outcomes vis-à-vis sector strategies and priorities
Technical efficiency	Constant or increasing funding despite decreases in underlying cost drivers, e.g.: • Decline in the number of beneficiaries • Simplification in the regulatory / international requirements • Available new technology • New organizational modes of service delivery • The budget for a specific item is higher than comparable budget headings in other entities for no obvious reason	Budget deviation analysis; a cursory review of business processes and IT use, consideration of legal regulatory and international requirements

Source: Adapted from the spending review toolkit presented in "Spending Review Framework, Application for Bulgaria", World Bank, Sofia, 19 June 2019, presentation by Desislava Nikolova.

Box 6. SR Approach of the Turks and Caicos Islands 2020

In 2020 Turks and Caicos government funded immediate expenditure pressures arising from the global outbreak of COVID-19 from budget surpluses accumulated over the previous years. The initial allocation to fight the virus totaled US$1.4 million (around 0.5% of the total budget).

In June 2020, the Ministry of Finance, Investment and Trade (MFIT) wrote to other ministries with a request to identify savings and expenditure cuts in non-priority sectors amounting to 20% of their respective budgets. The first round of budget proposals generated 5% savings on average. The MFIT then took the initiative of coming up with expenditure cut proposals through the review and analysis of budget requests and a scrutiny of actual spending over the first 6 months of the fiscal year. The MFIT proposals on savings were sent to ministries for their feedback. The final allocations were determined based on negotiations between ministries and MFIT and later at the Cabinet meeting. The 2020/2021 budget allocated US$2.4 million to continue the fight against the virus. Significant amounts were allocated to mitigate the economic and social impacts of the pandemic. This included US$25.5 million cash grants to self-employed and workers in the informal sector, US$10 million to MSMEs and an additional US$0.5 million for social services. These measures amounted to over 10% of total expenditures. Over US$10 million was allocated to school re-development.

Source: Interview with Nordia Campbell, Budget Director, Budget Office, the government of Turks and Caicos Islands (TCI), TCI Budget 2021.

Each country will select a combination of approaches and tools that best fits its context and is aligned with its PFM system. Countries with greater experience in spending reviews could adopt more sophisticated approaches. Countries which have not implemented SRs, or which have just introduced the approach, are advised to revert to more simple options. The lack of such capacity could also be compensated through involvement of external / international expertise. A good example of a simple but highly effective approach is the one taken by Turks and Caicos in 2020, as described in Box 6.

A rapid spending review requires quick identification and a sharp focus on target areas for potential expenditure cuts/reallocations. These should be areas that can deliver the greatest savings or efficiencies. The CBA, through its coordination team, has an important role in setting the initial focus. There are several questions and triggers that can highlight areas to be explored. A brief questionnaire to guide the CBA budget analysts in the initial screening in Stage 1 is provided in Box 7 below.[41] Based on the screening, the CT will propose to the government target areas for expenditure cuts. The proposals will be informed by feedback and consultations with line ministries. The questionnaire combines elements of budget composition, trend, and deviation analyses.

Box 7. Questionnaire for Initial Screening of Expenditures for RSR

1. Which are the sectors[42]/programs/expenditure categories with biggest proportion in total expenditures (>5-10%)?
2. Which are the sectors/ programs/ expenditure categories with the sharpest growth trend in the recent 3-5 years?
3. Which are the sectors/ programs/ expenditure categories exhibiting significant growth in recent years without a tangible improvement in outcomes and outputs?
4. What are the main drivers of expenditure growth in the sectors/ programs/ expenditure categories (if known)?
5. Which are the sectors primarily affected by the crisis and requiring additional allocations?
6. Which are the sectors not largely affected by the crisis but important with view to government's long-term vision?
7. What is the sector's contribution to GDP (actual, estimate, trend)?
8. What are sector expenditures as a proportion of GDP in international and regional comparisons?[43]
9. Which are the sectors/ programs/ expenditure categories showing significant under-spending or over-spending of allocated budget (over 5-10% variances). Is this seasonal or permanent?
10. Which are the sectors/ programs/ expenditure categories displaying unusual patterns of budget execution or a high level of volatility? What are the apparent reasons for this?
11. Are there expenditure categories that are disproportionately high as a percentage of total expenditures for some sectors or line ministries/ state agencies as compared to others?
12. Are the expenditures mandatory or discretionary? *(If mandatory, the expenditures are not considered for potential cuts).*
13. Which categories of expenditure or programs have become or are likely to become redundant?
14. How do program performance and costs compare across LMs / SAs (in case of similar programs)? Where are the largest variations?
15. Which are the under-performing programs (in terms of service delivery and outcomes)? What are the apparent reasons for under-performance?
16. What is a program's relevance vis-a-vis revised government priorities?

[41] Budget analysts of the CBA are also advised to use the results of existing analysis, for example, country-level or sector-level PER, to inform the initial screening, if such analysis is recent and available.

[42] Similar analysis is applicable at sub-sector level

[43] International Monetary Fund, Fiscal Affairs Department, Expenditure Assessment Tool (EAT), Prepared by Mercedes Garcia-Escribano and Candice Yue Liu

A simple exercise to inform budget deviation analysis in the initial screening for RSR is analysis of actual expenditure patterns of financial and non-financial performance. Areas of under-execution and poor performance could indicate opportunities for cost cutting or reallocation. However, more detailed analysis of the underlying reasons is needed in Stage 2 of the RSR before a decision is made.

Table 4 provides a possible format which the CBA can ask LMs/SAs to complete to inform its analysis. Countries with integrated financial and non-financial performance reporting arrangements in place have better access to data with which to operate in making such decisions. Yet, not all countries will be able to produce information on output quality. Filling in the section for quality indicators should not be mandatory for all programs in such cases, as opposed to indicators of quantity and financial performance. Information on financial performance might in most cases be limited to the budget allocated for the program. Countries which do not have the framework in place can generate the required information by asking line ministries / state agencies to report on reasons of under-execution (provided in Table 5[44]). While the situation remains pressing such reporting needs to be carried out at least on monthly basis. The reports should be submitted to the Line Minister / Head of the SA and to the CBA.

Table 4. Report on the Implementation of Financial and Non-Financial Performance Indicators by Program and Sub-Program

Line Ministry / State Agency Name							
Program Name							
Program Goal							
Implementing Agency							
Main Administrator of Budget Funds							
Recipient of Budget Funds							
Program Manager							
Reporting Period							
Indicator Name							
Indicator Name	**Target value of the Indicator for the Reporting Period (cumulative from the start of the year)**	**Actual value of the Indicator for the Reporting Period (cumulative from the start of the year)**	**Variance from the target (+/-, %)**	**Target value of the Indicator for the fiscal year**	**Reasons for variance (to be completed in case of variance of over 5%)**	**Possible consequnces and impact**	**Proposed corrective action**
Indicators of Qunatity							
Sub-program 1							
Sub-program 2							
……..							
Indicators of Quality							
Sub-program 1							
Sub-program 2							
……..							
Financial Indicators							
Program Total							

[44] Tables 4 and 5 are adapted from the template developed by "Armenia: Assistance with MTEF Project" funded by DFID (2002-2005) and used in budget reporting in Armenia. An adapted version was also proposed to the Ministry of Finance of Tajikistan by EU project: "Support to selected areas of PFM reforms" (2014-2017).

Table 5. Summary Table on the Execution of Budget Programs by LM/SA

Program/sub-program name	Approved budget for the reporting period	Actual allocation for the reporting period	Variance (+/-, %)	Reasons for variance	Approved annual budget
Program 1					
Program 2					
Program 3					

Total for the State Agency					

Another simple tool that can aid the analysis in Stage 2 of RSR is benchmarking. Benchmarking involves comparing similar interventions delivered by different actors for financial and non-financial performance. The most common way of assessing expenditures via benchmarking is comparing costs and outputs for similar interventions across line ministries / state agencies, across regions, between public and private delivery channels, etc. International benchmarking may also be useful in relation to non-financial performance (e.g., morbidity and mortality rates, life expectancy), financial allocations (e.g., allocations to sectors such as education funding as a % of total budget or GDP), and service delivery costs and prices.

For most PEMPAL countries it will probably be easier and more meaningful to conduct internal benchmarking. Internal benchmarking involves looking at line ministries' and state agencies' wage bills, bonuses, administrative costs, purchases of goods and services, and other economic categories of expenditure. Comparing unit costs across different providers of services (e.g., cost for policy development and coordination services across line ministries / state agencies, etc.) would also be useful if such information is available. An example of benchmarking from NZ used on administrative and support services of all agencies and departments can be found at NZ Treasury website.[45] Benchmarking unit cost is relevant for services that are not financed through formula-based approaches such as per student and per capita financing in education and primary health, or case-based financing of hospital care.[46] Table 6 below provides a suggested format which the CBA can ask line ministries / state agencies to complete for the purposes of benchmarking similar programs or services.[47]

In countries where budget expenditures are not provided in program classifications benchmarking would not be as meaningful. Nevertheless, it may be useful to compare the administrative costs of line ministries / state agencies vis-a-vis their relative size (can use the number of employees in different categories as a proxy for size or can compare administrative costs as a proportion of the total budget of the LM/SA, excluding transfers and capital expenditures). It might also be useful to look into discretionary transfers to staff and individuals and question their appropriateness if the amount of expenditures is material (more than 5% of the total budget of the LM/SA).

Review Teams should identify saving/reallocation priorities or areas to focus at the start of review implementation stage (Stage 2) and then move to the review of spending to identify expenditure cut and reallocation options. This kick-off priority setting should be informed by the Government's statement issued in Stage 1 (see Box 5). The next step should involve testing of all policy interventions for relevance, adequacy, and necessity. Program review in Canada offered a 7-tier test for government policy interventions to be used by departments in deciding on and proposing possible options for reorganization of their activities and services to reduce costs and enhance value for money (see Figure 4[48]).

[45] https://www.treasury.govt.nz/information-and-services/state-sector-leadership/cross-agency-initiatives/benchmarking-administrative-and-support-services

[46] Even with standard formulas, variables can be reconsidered (e.g. the region-specific ratios of equalization transfers).

[47] Each line ministry / state agency would fill in a separate template relating only to its expenditures.

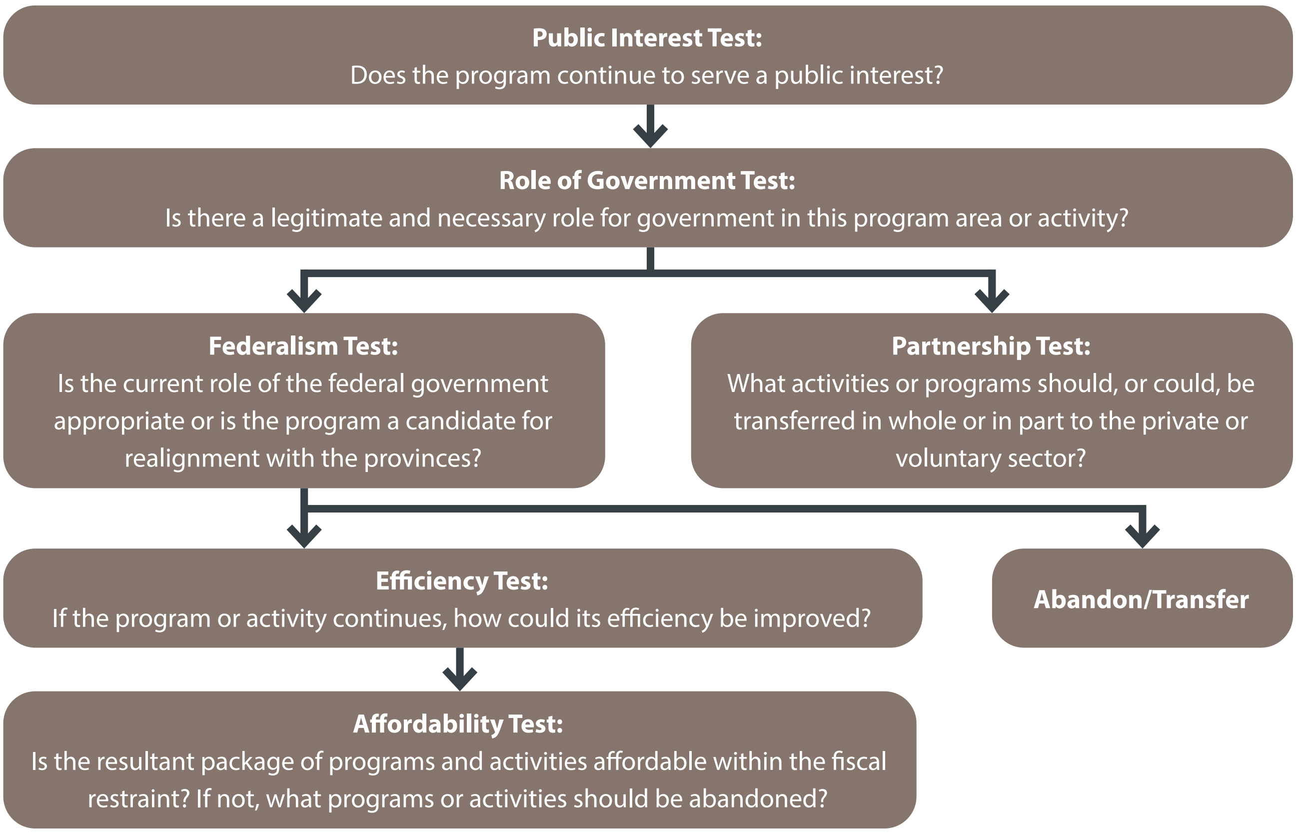
[48] "Department" in Canada stands for line ministry / state agency.

Table 6. Proposed Table for Benchmarking by CBA

Name of the State Agency	State Agency 1		State Agency 2		State Agency n	
Programs (services)						
Programme name						
Program 1						
Goods and Services						
Interest						
Transfers (sibsidies, grants and benefits; indicate which)						
Other						
Capital expenditure						
Program N						
Goods and Services						
Interest						
Transfers (sibsidies, grants and benefits; indicate which)						
Other						
Capital expenditure						

** An illustration only. Expenditure categories should be filled according to the economic classification used in the particular country*

Figure 4. Program Review Test, Decision Tree



Source: Program Review: The government of Canada's experience eliminating the deficit,1994-99: a Canadian case study, by Jocelyne Bourgon, Institute for government.

PEMPAL countries could develop their own testing of program performance, relevance, and necessity. A proposed questionnaire is provided in Box 8.

Two options of templates for the analysis of savings / re-allocations are provided in this KP. One option is to adjust and use the template for baseline alignment proposals that was used in NZ for 2011 budget (provided in Annex 3). Another template for program / policy review is provided in Annex 6. These templates can be used in the RSR, and integrated into the regular budget process for the forthcoming fiscal years.

The final output of the RSR is a brief report with recommendations and justification of savings and re-allocation options. Such a report will be produced by each Review Team to be reviewed and summarized by the CT (please see Section 3.2). As mentioned above, the proposed template for RSR review reports is provided in Annex 4.

Box 8. Questionnaire for Testing the Relevance and Necessity of Policy Interventions

Alignment to Government Priorities and Public Need

1. Does the policy intervention contribute to the revised government priorities and in what way?
2. Where would the policy intervention fit in if all interventions were displayed in order of importance?
3. Does the intervention serve a public interest? Is public demand for it increasing, decreasing or stable?

Impact of External Pressures and Possible Expenditure Revisions

4. Does the change in environment and / or government priorities increase or reduce expenditure pressures for the delivery of policy intervention?
5. What would be the consequences of funding cuts for the policy intervention:
   a. What would happen if the policy intervention were not provided at all?
   b. What would happen if the funds for the policy intervention were reduced by 5%-20%?
   c. Would the benefits be greater if a portion of the funds spent were used instead for other policy interventions?

Effectiveness:

6. How well does the program meet the policy objectives?
7. Can specific steps be taken to improve cost effectiveness?
8. Are there other means to achieving these objectives?
9. Can the program be better targeted?

Efficiency:

10. Is there overlap or duplication with other government programs? Is there scope for rationalization?
11. Are there other less costly and more effective ways to deliver the intervention? Consider:
    a. Simplifying administrative arrangements
    b. Altering service delivery channels or mechanisms
    c. Delegation to other levels of government / private sector (in part or as a whole)
    d. Increased use of digital tools
    e. Consolidating service delivery channels or outlets (electronic delivery, one-window shops, etc.)

    Note that these solutions would require short-term increases in expenditure outlays for medium to long term benefits. Ask whether these benefits would be great enough to justify the additional costs.
12. Is there scope to introduce (or increase) user-charges or co-contributions?

3.3. Areas of expenditure to review

International experience in SRs provides some useful insights on the types and areas of expenditures where savings could be easier to identify, or which can generate significant fiscal space[49] due to the size of expenditures. It is not possible to provide "one size fits all" advice on key areas of focus for potential expenditure cuts as it largely depends on country specifics. For example, in a recent publication from the special series dedicated to COVID-19 response,[50] the IMF suggests that low international oil prices provide an opportunity for reducing fuel product subsidies. This creates a platform for increasing fuel product taxation over the medium term to efficient levels to transfer the environmental costs to businesses engaged in oil production and sales, and thus contributing to the protection of the environment. This advice is relevant for countries where the oil industry is a significant contributor to public revenues and / or expenditures.

Horizontal reviews can potentially focus on any category of expenditure but the identification of the type of expenditure to review can be challenging. Some examples of horizontal reviews include reviews of asset management and related costs, ICT costs, procurement practices, LM/ SA administration budgets, transfers and benefits, costs related to servicing public debt, etc.

State administration budgets and particularly the wage bill of public servants, and transfers and purchase of goods and services usually consume significant resources. In the UK, for example, prior to the 2007 CSR the public service wage bill amounted to 50% of departmental administration costs while a further 40% was accounted for by procurement of goods and services such as accommodation, equipment, and travel. Only 10% was spent on other items, such as capital charges for buildings, IT equipment, and other assets used by civil servants.

3.3.1. Public service remuneration

A large, ineffective and costly public administration is a burden for the economy through its implications on taxes levied by the government and business costs. Therefore, maintaining a lean, focused, efficient, and relatively small public service always pays but is not always in focus in times of fiscal surpluses and favorable macro-economic circumstances. As fiscal and economic pressures increase, governments often look at remuneration of public officials as a potential source of savings. Saving measures may be temporary or permanent but in both cases care needs to be exercised not to demotivate staff thus risking decline of productivity and performance.

Optimization of public service and / or reductions of public service pay were often an area of focus in OECD spending reviews intended to close the fiscal gap. In 1980s and 1990s in the Netherlands, Sweden, and Denmark the implementation of savings options included the reduction of staff and transformation of state administration which made a strong contribution to the fiscal tightening.

At the start of the pandemic public sector remuneration again became a target for expenditure cuts in an attempt to fund additional COVID response measures. For the UK's 2020 CSR of the departments' resource budgets (operating expenditures), the Chancellor's letter outlined the need, "in the interest of fairness", to "exercise restraint in future public sector pay awards, ensuring that …public sector pay levels retain parity with the private sector". As case in point, in April 2020 NZ's Prime Minister, Jacinda Ardern, announced that her Ministers, public service chief executives, and she would take a 20% pay cut for the next six months amid the economic impact of the pandemic. No reductions were applied to lower-level officials' remuneration.

A lesson learnt by OECD countries from attempts to reduce public service pay is that reductions must be implemented with great care. A well-planned optimization /re-structuring exercise is more likely to deliver sustainable fiscal benefits than linear cuts in wages. This requires an in-depth functional and organizational review which is difficult to accomplish

[49] Fiscal space is a commonly used term defined as the budgetary room that allows a government to provide resources for public purposes without undermining fiscal sustainability.

[50] IMF, Fiscal Affairs Department, Special Series on Covid-19, July 13, 2020, "The Time is Right! Reforming Fuel Product Pricing Under Low Oil Prices" *by Chadi Abdallah, David Coady, and Nghia-Piotr Le.*

under tight time pressures. Further, reductions in the wage bill may often need to be selective or targeted. Progressive cuts (commensurate to the level of pay) are more likely to be perceived as fair.

Under the circumstances of the pandemic, PEMPAL countries are advised not to make *material* cuts in public sector pay based on an RSR. Any savings that are not based on a detailed functional analysis would need to be limited to the bonus fund, voluntary waivers, a postponement in hiring or salary increases, and a marginal and temporary reduction of high-level officials' pay. Such measures should not be directed at the health and social sectors where wage bills and bonus payments, particularly at provider level might actually need to be increased.

3.3.2. Line Ministry / State Agency administration costs

It is useful to review the overall operational budgets of line ministries / state agencies, because non-salary expenditures can consume roughly as many resources as remuneration. The focus may remain narrow enough to enable a rapid review at a relatively low cost, as in the case of the RGPP in France when the review was limited to the central government and focused on the personnel and operating costs.

The 2007 CSR in the UK (referred to as the Gershon Efficiency Program), generated significant savings by identifying operational efficiencies in departmental administration costs. Departments and local authorities reported significant provisional savings by the end of the first full year of the program in:

- Procurement - getting better value from goods and services - GBP 3.7 billion
- Productive time - freeing up more time for frontline service delivery - GBP 2 billion
- Corporate services - reducing running costs in HR, IT support, and finance - GBP 884 million
- Transactional services - streamlining interactions with customers – GBP 451 million
- Policy, funding and regulation - streamlining government machinery – GBP 1 billion

At the outset of the CSR 2007, the government had set targets for efficiency gains and cost reductions to be generated through re-engineering government business, reduction and reallocation of civil service posts, and asset sales. The targets included:

- Efficiency gains of 2.5% (over GBP 20 billion a year) over the 2004 SR period by 2007-08 across central and local government
- A gross reduction of over 84,000 civil service posts by 2007-08
- The relocation of 20,000 other posts away from London and the South East by 2010
- GBP30 billion asset sales by 2010 across the public sector

It is important to note that the review of business processes and procurement is likely to be a time-consuming exercise, not compatible with time-pressures which necessitate an RSR. In an RSR a horizontal review of administrative budgets would have to rely on the simple tools described in Section 3.2.2. In terms of administration costs of line ministries / state agencies other than the wage bill, some potential areas on which to focus are the costs of maintaining a vehicle fleet (number of vehicles, average distance traveled, fuel costs, etc.), travel and accommodation costs for public servants, agency representation and event costs, the need for which is likely to decrease because of restrictions to control the pandemic. Utility costs of line ministries / state agencies can be decreased significantly through installation of smart internal lighting systems and setting savings targets to promote a more rational use of the energy.

Benchmarking the cost of goods and services used by line ministries / state agencies to market prices or horizontal benchmarking of cost drivers of the administration budgets across line ministries / state agencies can be a relatively quick and easy way of identifying opportunities for savings and efficiency gains. In the period 2009-2015 New Zealand performed regular bi-annual benchmarking of administrative and support services across departments and agencies on an annual rolling basis. The review combined both the wage bill and the other administrative costs of line ministries / state agencies.[51]

[51] For more detail please visit https://www.treasury.govt.nz/information-and-services/state-sector-leadership/cross-agency-initiatives/benchmarking-administrative-and-support-services

3.3.3. Investment projects

In times of financial stress countries often resort to cutting or postponing public investment as a means of generating fiscal space but such decisions should be carefully considered to avoid adverse social and economic effects. Good decisions on delaying or cutting capital spending rely on a strong investment evaluation, management, and prioritization system which is an area of weakness in some countries.

Nevertheless, it is possible to follow a few simple rules to enable informed decisions on capital expenditure reprioritization or cuts. Key questions and issues to consider are:

a. Linear cuts in capital spending are easy and quick but it is not possible to consider the relative costs and benefits and the short and longer-term impacts of such decisions. Such an approach does not make it possible to apply a different treatment to projects with high economic and social returns and relatively low costs versus those with a lesser cost-benefit ratio.

b. In some cases, postponement of capital projects may generate higher costs in the future or can lead to the waste of significant previously incurred cost. This is usually the case when the project is well advanced in implementation and not completing the construction work could erode the infrastructure already in place, due to exposure to unfavorable weather conditions or other risks.

c. Some projects may have penalty clauses that trigger in case of postponement or cancellation.

d. Cuts in infrastructure maintenance and operating costs may lead to a premature end of the useful life of an asset. This may in turn require much larger outlays for the replacement or the recovery of the asset.

e. Project postponement or cancellation may lead to the suspension of other related projects. Such relations and dependencies should be carefully examined. In case of significant involvement of subnational governments, any decision to cut or delay capital projects should be agreed with the SNG.

f. Spending cuts would typically focus on internally funded capital projects. Investments funded by development partners are usually earmarked and cannot be delayed or cancelled.

In a recent publication from the special series dedicated to COVID-19 crisis responses, the IMF provided a simple tool to assist with decision-making on capital spending postponements and cancellations. The tool, adjusted for this KP, is provided below (see Table 7). PEMPAL countries are advised to use it as a guide in deciding whether to postpone or cancel capital projects.

After completing the analysis based on the decision matrix provided in Table 7, it may be necessary to consider additional factors in making decisions to reduce capital spending. Project postponement and cancellation may be reconsidered in cases when a) the project is expected to deliver additional positive impacts or b) project cancellation or postponement may cause significant negative side effects. In the context of an RSR consideration of these factors would be based on a cursory qualitative analysis and judgement rather than more elaborate analytical techniques. Factors to consider include:

Table 7. Illustrative Criteria for Postponing or Cancelling Projects

Basic Decision Matrix	Postpone	Cancel
Project approved, not initiated	Yes	Yes
Project initiated, less than 10% cost incurred	Yes	No
Project under implementation, Benefit to cost (B/C) of completion >=1.5	No	No
Project under implementation, B/C of completion <1.5 and >=1.0	Yes	No
Project under implementation, B/C of completion <1.0	Yes	Yes

Source: Basic Decision Matrix, IMF, Fiscal Affairs Department, Special Series on COVID-19, May 11, 2020, "Managing Public Investment Spending During the Crisis", by Eivind Tandberg and Richard Allen.

- Additional positive economic impacts beyond B/C;
- High social and environmental risks of project cancellation or postponement;
- High employment creation;
- Significant synergies with other projects;
- High cost of project cancellation.

The benefits and costs of investment projects should ideally be analyzed during investment planning and selection stage, but this type of analysis might not be possible in some PEMPAL countries at present. In such cases, countries could skip the questions involving consideration of B/C.

3.3.4. Other expenditures

Some large expenditures may not be amenable to significant adjustment through RSR. Review of social spending and debt service costs, for example, is typically resource and time intensive and cannot be conducted rapidly. Social spending (e.g., benefits, social security payments, pensions, social services, allowances) would involve a detailed examination of delivery channels, administration costs, targeting, eligibility criteria, payment rates, etc. For debt service costs a thorough assessment of debt management arrangements (processes, methodologies, institutions, and capacities) would be needed. PEMPAL countries are advised to involve external expertise for such assessments, separate from RSR.

While health-related and social spending is expected to increase in response to COVID-19, cost re-allocations within these sectors are an important focus for RSRs. There may be opportunities for funding a portion of health expenditure outlays through internal efficiencies and savings. Re-allocations are likely to be unavoidable in the education sector, due to the shift in the mode and channels of service delivery (shorter academic hours, shift to online delivery, etc.) that will in turn mandate changes in teaching aids and the skills of the academic staff. Expenditure reviews in health, education, and social sectors are likely to become imperative going forward.

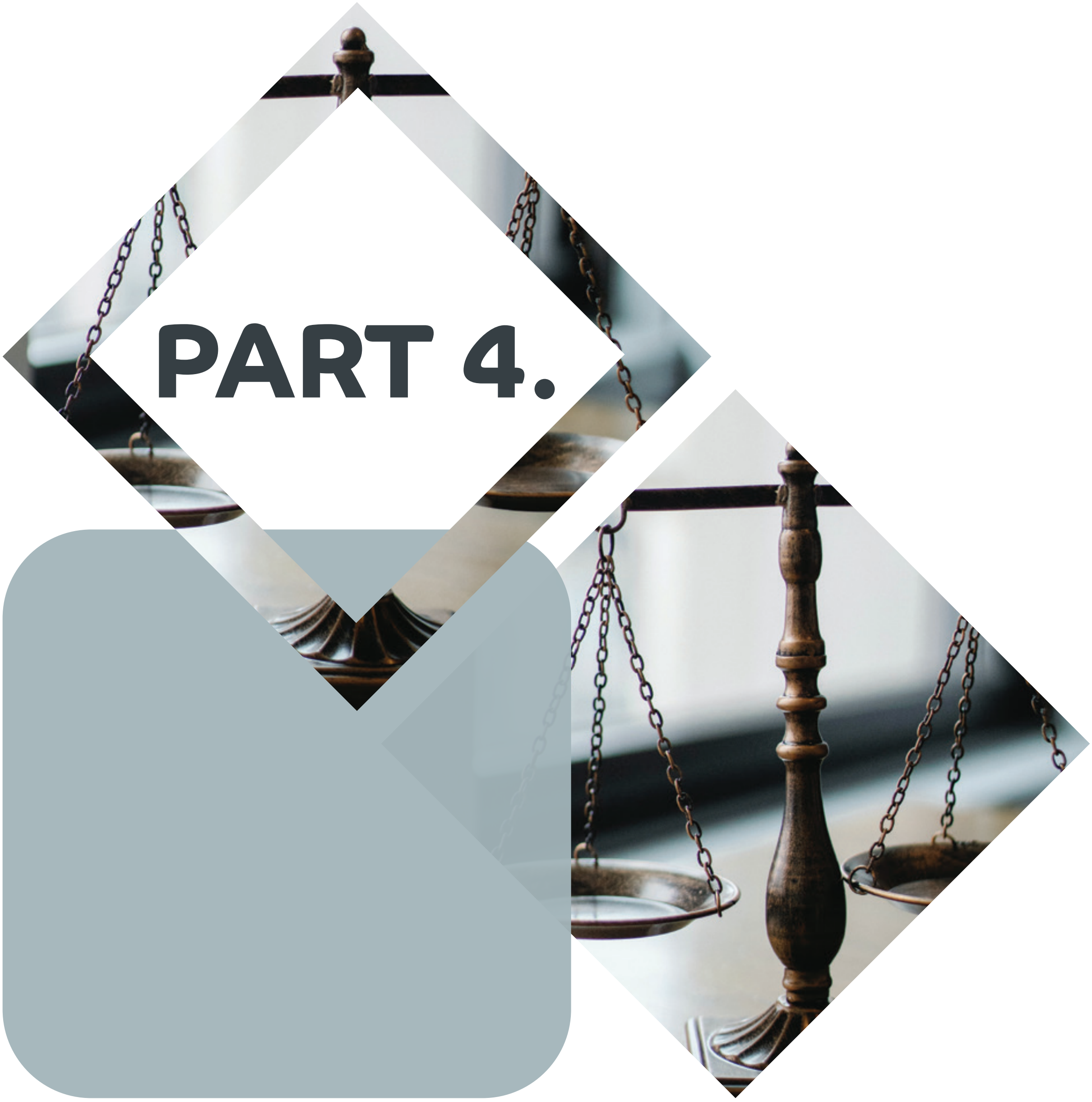
In times of crises and fiscal pressures it is important to identify not only potential savings but also expenditures to be protected. In an environment of high poverty and unemployment, pressures arising from economic decline or recession will require fiscal consolidation efforts to be combined with measures to protect social and growth-friendly capital spending. Additional stimulus measures to help businesses and individuals through difficult times are likely to be needed. The IMF-suggested tool for prioritizing fiscal stimulus measures is provided in Table 8 below.

Table 8. Illustrative Criteria for Projects in a Fiscal Stimulus Package

Principle	Illustrative Criteria
Timely	Possible to implement the projects in the required timeframe A significant share of projects should be available for immediate implementation
Targeted	High benefit/cost ratio (B/C >1.5) Additional positive impacts (beyond B/C estimate): • Economic • Social • Environmental High employment creation potential Significant synergies with other projects, including SNGs and private sector Leverage concessional financing
Temporary	The projects should have a strong long-term growth impact but limited long-term fiscal impact They should not require significant funding beyond the fiscal stimulus period

Source: IMF, Fiscal Affairs Department, Special Series on COVID-19, May 11, 2020, "Managing Public Investment Spending During the Crisis", by Eivind Tandberg and Richard Allen

PART 4.



RECOMMENDATIONS

4.1. Recommendations on the RSR process and tools

Some PEMPAL countries have reported lack of engagement from line ministries in the expenditure review process in 2020, and an absence of appropriate regulatory levers for the CBA to achieve constructive inputs from ministries. Therefore, it is important to address issues that are largely of the political domain, to create an environment in which securing the technical capacities, tools and processes necessary for the implementation of a RSR will deliver the intended results. It is also necessary to conduct a dialogue between the CBA and the line ministries in order to convince them of the importance of RSR and the benefits they will have due to greater expenditure effectiveness in the medium and long term.

Recommendations provided in this sub-section can tentatively be broken down into the following groups: i) political, ii) political and technical and iii) technical. Recommendations 1-3 fall into the first category. Recommendations 4 and 5 relate to priority setting and prescribing the RSR approach in legislation. These recommendations are both political and technical. Establishing priorities is a political process but requires technical inputs. Methodology development is technical work but making it part of legislation provides political levers for the process. Finally, recommendations 6 to 8 are purely of technical nature.

Recommendation 1. Ensure high-level political support for the spending review process, from the outset, across all key stages. This would involve the Centre of Government[52] participation in the concluding stages of negotiations at all key points of the process, that are expected to deliver decisions regarding expenditure allocations, re-allocations, and expenditure cuts.

Recommendation 2. Engage line ministries / state agencies in a dialogue with the CBA and government, so they have a chance to make their point. Joint sessions between the CBA and line ministries could contribute to this end and facilitate the process. Establishment of Review Teams could be a good lever for organizing such joint sessions.

Recommendation 3. Hold discussions with groups of agencies or ministries to achieve cross cutting objectives, e.g., promoting public health and strengthening social safety nets in response to a crisis such as COVID. Such sessions should be followed by formal protocols and/ or resolutions that would provide a clear mandate and responsibility for each ministry to take specific follow up actions.

Recommendation 4. Prescribe the methodology and process for conducting a RSR in a government decree or legislation, including guidance on templates to be used. This will enable mobilization of the RSR process when the need arises.

Recommendation 5. Establish and communicate spending priorities at the outset of the process; identify low priorities to be considered for potential cuts/reallocations. Signaling the indicative level of expenditure reduction is also likely to enhance the efficiency and effectiveness of the RSR. It may make sense to create incentives for ministries to identify savings and options for expenditure cuts, by allowing them to retain the portion of identified savings in excess of the target.

Recommendation 6. Use simple tools from the general toolkit of spending reviews for the implementation of RSR. Such tools include but are not limited to budget composition, deviation and trend analyses, benchmarking, review of program objectives and outcomes vis-à-vis sector strategies and priorities.

Recommendation 7. Include mandatory strategic and efficiency questions to be answered in spending reviews and consider combining targeted (vertical) sector or agency / LM reviews with a comprehensive or horizontal spending review, to maximize the benefits from the exercise. Sector spending can be improved not only through increased allocations from the government budget but also through internal re-allocations. Sector reviews in health, education, and social protection could follow the RSR, adding value. Attracting international expertise, combined with local knowledge, is advisable.

Recommendation 8. Involve external experts in the process of spending review to advise on technical matters and help with the use of analytical tools. Such experts would need to have extensive international experience in the subject matter. Another option could also be public consultations or specific discussions with

[52] The "Centre of Government" is a term used to mean the institution or group of institutions that provide direct support to the head of the executive branch of the government (president or prime minister) in leading the management of government.

stakeholders. It might be possible for the government to attract such technical expertise free of charge through technical assistance projects delivered by development partners.

4.2. Recommendations on RSR key focus areas

The selection of the topic for spending review may itself be a time and resource consuming exercise and require additional processes and arrangements. Targeted vertical reviews are likely to be inappropriate and impracticable in circumstances requiring quick decisions and significant reductions in aggregate expenditures.

Recommendation 9. Consider using a comprehensive but relatively superficial approach in the implementation of RSR. As discussed in Section 1.2, a comprehensive review does not necessarily mean reviewing all expenditures. Rather it means involving all line ministries / state agencies in the process, while not necessarily conducting in-depth analysis. It is useful to allow ministries to come up with their own suggestions on areas to focus considering the information asymmetry and the need for constructive engagement.

Recommendation 10. Use a selective and thoughtful approach in the decisions to cut or delay capital spending. Depending on how far a project is advanced in implementation the impact of cancellation or postponement on future costs may be different. Connections with other projects and impact on service delivery infrastructure, and social and economic effects should be considered. This paper provided a simple questionnaire to be used for this purpose (Table 7).

Recommendation 11. Look into the administrative and operating costs of line ministries / state agencies (other than salaries and wages) to identify expenditure cuts / reallocations — they can potentially be the least painful. Benchmarking could usefully highlight areas of potential efficiency gains. Additional spending should be restrained unless justified as essential. Items like travel, costs related to the use of vehicles, events and promotion costs, utilities, and training costs (e.g., international visits, hiring of venue and equipment for classroom training, catering costs, etc.) could generate natural savings (for example, as a result of COVID-related restrictions).

Recommendation 12. Refrain from major cuts in public service pay but consider a limited set of temporary measures such as postponement of new hires and pay increases, voluntary waivers, and appropriateness of bonuses. Any revisions or cuts in public sector remuneration should be carried out based on a thorough functional review, separate from RSR. Such an exercise will require significantly more time and resources.

PART 5.

A WIDER PERSPECTIVE TO CRISIS RESPONSE: MEASURES TO MAINTAIN AGGREGATE FISCAL CONTROL AND RESILIENCE

5.1. Complementary measures to rapid spending reviews

To deliver the intended objectives of aggregate fiscal control, RSR should be supported with adequate complementary measures and processes. Such measures should be aimed at ensuring timely and appropriate use of released resources and maintaining longer-term fiscal sustainability. They should by no means be underestimated, particularly when time and expenditure pressures are very significant and when fiscal and public policy outcomes and outputs are at a high stake. The crisis resulting from COVID-19 is a typical scenario where such considerations are particularly relevant.

Reserve or contingency funds and surpluses accumulated during the previous years have availed some countries with fiscal space and liquidity cushions to rapidly respond to emergency needs. This was the case with UK, Canada, and a few other OECD countries. Pacific island countries (such as Fiji, Vanuatu, Solomon Islands[53]) routinely appropriate resources to contingency funds in their annual budgets for unforeseen expenditures.[54] In 2020 some PEMPAL countries (e.g., the Russian Federation and Azerbaijan) set aside or reallocated resources to contingency / reserve funds to meet potential unforeseen expenditures.

It is critical to have clear rules for accessing contingency funds, to avoid potential misuse in a situation where controls are relatively relaxed. Clear guidelines on the use of contingency fund should be provided by the CBA. IMF suggests[55] that the 2021 budgets should provide for larger contingencies with view of the uncertain outlook while maintaining appropriate safeguards. The use of contingency funds should be limited to specific circumstances.

The use of contingency appropriations or reserve funds should also be supported with strong accountability arrangements. Such arrangements are easier to implement when the specific expenditures are somehow ring-fenced or earmarked in the budget. For this purpose, New Zealand created a special Covid-19 Response and Recovery Fund (CRRF) as part of Budget 2020 and set aside NZD50 billion to support the relevant initiatives. Allocations from the CRRF are set out by vote[56] and initiative. This information is published on the NZ Treasury web page. Agencies have been required to report on a fortnightly basis on high level financial and non-financial indicators related to CRRF spending. The information is collated from agencies and reported to the Minister of Finance. Ad hoc in-depth reviews of the spending are completed from time to time. Some countries (for example, Brazil, Honduras) are developing COVID-19 spending online portals to enable the public to track COVID-19 expenditures.

The immediate nature of expenditure pressures arising from the crisis calls for quick decisions on additional spending and expenditure re-allocation, so more relaxed rules and streamlined approval processes are required to address the need. The usual distribution of roles and authorities in the budget process may constrain the ability of the government to react quickly, particularly where the Parliament has a primary decision role in appropriating budget funds. In some jurisdictions this limitation may be addressed through emergency spending provisions prescribed in PFM legislation. In some countries (e.g., Armenia, Namibia, Mozambique), expenditure reallocation or virement rules are defined on an annual basis, in the budget law. While not necessarily good practice in normal times, this gives countries an opportunity to apply more relaxed rules for expenditure decisions during the budget year but it is advisable that these decisions are reported to the Parliament. For in year RSR it may be necessary to pass a resolution giving the government additional flexibility on a temporary basis. Such additional freedoms should be balanced with strong ex-post oversight and monitoring.

Supplementary budgets provide another option for addressing unforeseen expenditure pressures of a large scale. However, they may be too cumbersome and slow for countries with limited capacity. Over-reliance on supplementary budgets may also undermine budget credibility. Supplementary budgets should be supported

[53] In Solomon Islands the contingency fund accounts for 0,5% of total expenditures.

[54] Mainly intended for use in case of natural disasters.

[55] IMF, Fiscal Affairs Department, Special Series on COVID-19, "Preparing Public Financial Management Systems for Emergency Response Challenges", by Sandeep Saxena and Michelle Stone

[56] The concept of vote is used in the New Zealand budget. Each sector may include one or more votes. Each vote is the responsibility of a Minister and is managed by a Department. A Minister may be responsible for one or more votes. For example, the sector of economic development and infrastructure includes votes economic development, communications, commerce, consumer affairs, energy, tourism, transport, etc.

with a requirement for line ministries / state agencies to prepare spending plans as concrete as possible. For example, IMF suggests[57] that spending plans should identify expenditures related to the baseline scenario and to COVID-19 response. It may be useful to set targets on the execution of supplementary budgets for expenditures related to a rapid response to inform cash management plans. For example, Korea's first supplementary budget passed on March 17, 2020 aimed to execute around 75% of the response measures in two months.

Countries with limited fiscal buffers and resources would have few options for finding fiscal space to meet increased expenditure needs and are more likely to revert to external financing. Grants could help address the gap in a fiscally sustainable way, whereas loans from IFIs and EU structural funds (if available) could provide the immediate relief. For countries which are already struggling to contain fiscal deficit or maintain public debt at a sustainable level risks related to this option should be determined.

Driven by the need for additional fiscal space to withstand the challenge some countries have reverted to temporary relaxation of fiscal rules. This enhances the country's ability to implement counter-cyclical fiscal measures. Some jurisdictions allow automatic relaxation of fiscal rules in emergency while other countries are initiating changes in regulations to provide for temporary relief. Several jurisdictions (e.g., EU, Colombia, Jamaica) introduced escape clauses in their fiscal rule frameworks after the GFC. As a response to COVID crisis, EU activated the general escape clause by exempting member states from meeting fiscal deficit targets (in fact the budgetary effect of the measures directly related to the pandemic will be excluded when the Commission assesses compliance with the fiscal rules). Most EU member countries (Austria, Bulgaria, Croatia, Czech Republic, Germany, Estonia, France, Greece, Italy, Lithuania, Latvia, Portugal, Romania, Slovenia) activated national escape clauses. In West Africa, WAEMU[58] countries are suspending the 3% deficit regional convergence criteria. In most cases, rules are expected to be re-instated in 2022. In any case, it is critical to develop and embark on a corrective plan to address medium to long term fiscal sustainability issues and risks as soon as possible.

5.2. Non-budgetary fiscal measures

Fiscal packages used by countries in response to COVID-19 crisis have included both budgetary and non-budgetary measures. Budgetary measures include spending on health care and social spending, transfers to economic and physical entities, wage and unemployment subsidies, tax cuts or deferrals. Non-budgetary measures have included fiscal backing for central and development bank programs, credit guarantees and incentives for commercial banks and financial institutions to defer loan and interest repayments for affected businesses and individuals. These actions have aimed at maintaining the flow of credit to the economy in a highly uncertain macro-economic and fiscal environment and helping vulnerable businesses survive the difficult times. Governments have also contributed direct and indirect funding for fiscal stimulus measures such as equity injections into strategically important firms and loans by governments, or their financial agencies and state banks, to economic entities.

The use of credit guarantees has the advantage of not having a direct impact on fiscal balance, but they do imply a certain degree of fiscal risk and should therefore be treated with care. Credit guarantees are contingent liabilities. Whether they will appear in budget documents depends on their coverage, the level of aggregation of budget items and on the adopted budget accounting method (accrual versus cash accounting). In parallel to reporting, there is a need for careful control and management of guarantees and other contingent liabilities of the government, given the potential fiscal costs and risks.

The analysis of non-budgetary fiscal measures taken by various countries as a response to the 2008-2009 GFC indicates that such measures, while addressing the immediate financial and fiscal pressures in a relatively "painless" way have fallen short of ensuring longer-term fiscal balance and sustainability. The experience of European countries in using such measures to mitigate the effects of GFC is examined in detail in ECB Economic Bulletin, Issue 6 / 2015, Article "The fiscal impact of financial sector support during the crisis".

[57] IMF, Fiscal Affairs Department, "Budgeting in a Crisis: Guidance for Preparing the 2021 Budget", Special Series on COVID-19, 20 June 2020

[58] West African Economic and Monetary Union

PEMPAL countries may consider the use of guarantees, direct and non-direct budget loans, and quasi-fiscal measures to mitigate the immediate fiscal impact of the crisis. Examples of various measures used by countries is provided in October 2020 issue of IMF's Fiscal Monitor.[59]

5.3. Strengthening resilience to shocks

The global crisis resulting from the pandemic prompts the need for several vital actions to strengthen future resilience and capacity to withstand similar shocks. Apart from facilitating expenditure reviews, such measures also provide safeguards and accountability levers to balance the increased flexibility in the management of resources that is often granted to react to crises and emergencies. The areas to look at for strengthening institutional and human resource capacities are highlighted below:

- **A strong performance budgeting and management framework is an important enabler of an effective RSR.** The quality of performance data is crucial for success, even in case of a simple and streamlined review effort. Special attention should be paid to establishing improved data collection mechanisms if there are gaps.
- **Analytical capacity needs to be strengthened in the CBA and LMs.** This relates to policy analysis skills, ability to interpret non-financial performance data linked to financial performance and understanding cost drivers which are all key to informing good decisions on expenditure cuts and reallocations.
- **Establishing reserves for unforeseen expenditures and replenishing them regularly during more normal times is a good practice.** PEMPAL countries are advised to start building such buffers as the situation stabilizes.
- **Strengthening the internal and external audit function to support the much-needed ex-post accountability on COVID-related or other further rapid response spending.** The rapidly changing environment is likely to demand more flexible models of management than has traditionally been the case, pushing for less ex-ante control and tighter ex-post accountability.
- **Strengthening of ICT capacities and expanding the use of digital tools can provide enhanced facilitation of spending reviews, particularly when rapid action is needed.** Such digital solutions should integrate policy analysis templates and tools as described earlier. Preference should be given to quick, low cost, simple solutions. External expertise might be needed in developing these digital tools.

[59] https://www.imf.org/en/Publications/FM/Issues/2020/09/30/october-2020-fiscal-monitor, Database of Country Measures in Response to the COVID-19 Pandemic

Annex 1

A brief description of analytical tools used in policy evaluation

Benchmarking — comparing unit costs of services / interventions across different service providers (e.g., across different state agencies, regions, public vs private). Benchmarking uses different techniques, such as, e.g., **profile analysis** which examines and compares expenditure at a point in time, presented in absolute numbers or as shares of GDP. Profile analysis is often used in international benchmarking.

Budget composition analysis — examining budget expenditures by functional, economic items and administrative classification. Could focus on specific agencies, sectors, or categories of expenditure (e.g., operation vs capital, wages, agency maintenance costs, purchase of goods and services, etc.).

Estimating marginal returns — estimates the impact of marginal policy changes of government on returns.

Cost-benefit analysis (CBA) — estimates all the perceived private and external costs and benefits of alternative spending options, by allocating them a monetary value. Will often involve comparing marginal returns with marginal costs for each policy option. Often used for assessing public investment options, e.g., assessing costs and benefits related to alternative sites for a new airport, and then selecting the option with the highest net benefit. For investment projects the CBA will usually assess the profitability of various options using NPV, considering opportunity costs, i.e., the forgone or missed opportunity because of a specific choice.

Cost-effectiveness analysis (CEA) — also referred to as **Value for money analysis** examines cost and benefits of policy alternatives without allocating them a monetary value. Studies a wide range of costs and benefits: social, economic, etc. Makes use qualitative and quantitative methods. Costs are measured in monetary units. One of the approaches used in CEA is **cost utility analysis (CUA)**, a technique which applies a uniform measure of utility based on individual preferences (e.g., QALY, quality adjusted life years, in health).

Frontier Analysis/Data Envelopment Analysis — Examines the productivity of a unit by comparing the output(s) to the input(s) used across different units.

Budget deviation analysis — tries to answer which budgets are over-or underspent and why.

Trend analysis	investigates dynamics of a variable over time. Can be applied to a wide range of contexts and variables, e.g., expenditures, outputs, outcomes, etc.,
Organizational assessments	reviews organizations from a range of perspectives: structure, human resource management, business processes, capacity, financial and physical assets, culture, reputation, finances.
Business processes reviews	breaks down processes into separate tasks, activities, or steps. Estimates their cost (in financial terms and time wise) and complexity and analyzes options for optimization. Can be conducted separately or as part of organizational assessment.
IT systems gap analysis	identifies the gaps and assesses the potential efficiency gains from automation or integration of stand-alone systems. Can be conducted separately or as part of organizational assessment.
Time series analysis	comprises methods for analyzing time series data to extract meaningful statistics and understand the characteristics of the data changes over time. Time series is used in forecasting to predict future values based on previously observed values.
Regression analysis	Is a set of statistical methods used for identifying the relationship between one or more independent variables and a dependent variable. It helps to identify the links between factors and impacts and to understand which of the factor has the greatest effect on the outcome/impact.
Difference-in-difference methods	is a statistical technique used in econometrics that examines the effect of different factors on impacts and outcomes by comparing the average change over time in the outcome and the independent variables.

Annex 2

UK: Priorities and targets guiding the comprehensive spending review (CSR) 2007

An extract from 2006 Pre-Budget Statement

The government's economic objective is to build a strong economy and a fair society, where there is opportunity and security for all. The 2006 Pre-Budget Report, Investing in Britain's potential: Building our long-term future, presents updated assessments and forecasts of the economy and public finances, reports on how the government's policies are helping to deliver its long-term goals and describes the reforms the government is considering ahead of Budget 2007 and on which it will be consulting in the months ahead. The Pre-Budget Report:

- shows that the economy is stable and growing and that the government is meeting its strict rules for the public finances;
- provides further help for families and children, including from April 2009 every mother-to-be will be eligible for Child Benefit from week 29 of their pregnancy;
- improves enforcement of the National Minimum Wage by increasing by 50 per cent the resources to tackle non-compliance;
- sets out a new ambition for the 2007 Comprehensive Spending Review of at least 3 per cent savings per year across central and local government, releasing further resources for the challenges ahead;
- makes a new commitment for capital investment in education to rise from £8.3 billion in 2007-08 to £10.2 billion in 2010-11;
- sets out a new ambition of world-class skills, taking forward the recommendations of the Leitch Review;
- sets out further measures to boost productivity and growth, to promote scientific research and reform planning and transport infrastructure;
- promotes fairness in the tax system, including action to tackle tax avoidance;
- takes further steps to tackle the global challenges of climate change, including an increase in all rates of air passenger duty with effect from 1 February 2007, in recognition of the environmental costs of flying; and
- announces an increase in line with inflation in the main road fuel duties, alongside measures to support the use of cleaner fuels.

Annex 3

New Zealand budget 2010 template for baseline alignment proposals

Vote [name(s)]

Baseline Alignment Proposal

Version [1]

[Date]

Submitted by:
[Vote Minister's name]

Section 1: Alignment to Government Priorities

Use this section to set out what the Minister intends to achieve in his or her Vote over 2010/11 and the next two financial years.

Please keep the discussion at a high level (1-2 pages of plain English). The intention of this section is to ensure that the Minister's colleagues can understand and test the priorities of the Minister and why those priorities have been chosen.

The information in this section will be used to assess the merit of the proposed reprioritization in section 2.

Please discuss:

1. What the Minister intends to achieve
2. How the Minister's intentions fit with:
    a. the strategic direction of the government as agreed at Premier House; and
    b. The Minister's priorities as set out in the exchange of letters with the Prime Minister
3. What are the critical things that must happen to achieve what the Minister intends? This explains the logic of *how* the Minister intends to achieve their priorities

4. What is the level of ambition of the Minister's intentions? i.e., how much is the Minister trying to achieve, and how difficult or risky is what the Minister is proposing? Could the level of ambition be increased or decreased if needed?
5. What must wait? i.e., something that is a priority but that is being deferred until Budget 2011 or later.
6. What is the Minister choosing *not* to do? Because this section sets out what the Minister is actively choosing to do, it may be useful to set out which current priorities or other opportunities are *not* part of the Minister's intentions (e.g., because they are lower priority or not aligned with government priorities)

Section 2: Reprioritization

Use this section to set out in detail (3-6 pages) what must change in the Vote to achieve the priorities in section 1, within the total operating funding (baseline plus share of operating allowance) available to the Vote.

What would be new or different?

Please include 1-2 paragraphs for each new, different, or increased activity that the Minister is proposing within the Vote.

For each new or different activity, please discuss:

1. What exactly is new or different compared to what is currently being delivered?
2. The contribution of the activity to what the Minister intends to achieve (i.e., as set out in section 1)
3. Summary of information supporting the proposed changes (see next paragraph)

For the information referred to in point 3 (above), the analysis that supports a proposed change in activity should be appropriate to the significance of the proposal. This analysis does *not* need to be included in full in this template. Analysis supporting a proposed change should cover the basic questions of intervention logic; options analysis; and how the new activity will be implemented and evaluated. In some cases, a full business case will be appropriate.

What would stop or decrease?

Please include 1-2 paragraphs for each activity that the Minister is proposing to *cease* or *decrease* within the Vote.

For each activity, please discuss:

1. The reason why the activity is of lower value or not aligned with priorities (i.e., why it does not align with the priorities in section 1)
2. What are the effects of stopping or decreasing the activity? Are there risks and if so, do they need to be mitigated?

Section 3: Summary of Financial Movements

This section details the changes to appropriations (including new appropriations) which are required to deliver the reprioritization set out in section 2.

The changes to appropriations resulting from reprioritization should not have an overall *net* fiscal cost. This is because the purpose of this template is to propose how the Minister's baselines will be used. This template is *not* used to bid for a change in the size of the baseline overall.

Annex 4

Template for rapid spending review report

1. **Areas of Focus**
   1.1. What areas of expenditure are the focus of this review?
   1.2. What ministries, programs, and agencies are covered by this review?[60]
   1.3. How much expenditure is covered by this review?
2. **Key Findings**
   2.1. What questions did the review consider in each area of focus?
   2.1. What methodology did the review use to answer these questions?
   2.1. What were the main findings of the evaluation of expenditure in each area of focus?
3. **Spending Review Recommendations and Their Impact on Performance**

   Different policy options may be recommended in the RSR report, based on which the government will decide what will be implemented.
4. **Summary of Recommendations**
   4.1. What actions are recommended to improve the effectiveness and efficiency of reviewed policy interventions?
   4.2. What costs are associated with the realization of these savings?
   4.3. What legal, organization, or operational changes are required?

Table 9. Spending Review Recommendations

N		Baseline Forecast	Current year	Year +1	Year +2	% change in current year (+/-)	% change in Years +1 and +2
1	**Review Area**						
2	**LM / State agency**						
3	**Proposed reductions/ re-allocations 3=-(4+5+6+n)**						
4	*Program 1*		-	-	-	-%	-%

[60] This question needs to be answered only in case of review team report

N		Baseline Forecast	Current year	Year +1	Year +2	% change in current year (+/-)	% change in Years +1 and +2
5	*Program 2*		-	-	-	-%	-%
6	*Program n*		-	-	-	-%	-%
7	**Proposed increases / re-allocations 7 = 8+9+10+n**						
8	*Program 3*		+	+	+	+%	+%
9	*Program 2*		+	+	+	+%	+%
10	*Program n*		+	+	+	+%	+%
11	**Net Saving 11= 3-7**						
12	**Revised Baseline 12 = 2-11**						

Notes:

1. *If the template is completed for more than one LM / state agency, savings and re-allocations should be provided for each LM / state agency in the format provided above;*
2. *Briefly describe the saving and re-allocation measures for each program, providing the relative monetary amounts;*
3. *Reductions from one program may be shown as increases for another program in case of re-allocation. They will be zeroed out when calculating the net savings*

Table 10. Estimated Impact of Proposed Expenditure Cuts and Re-Allocations on Non-Financial Performance Targets

N		Initial Targets	Revised Targets		
			Current Year	Year +1	Year +2
1	Review area				
2	LM / State agency				
3	Program code, performance indicator				
Affected Programs					
4					
5					
6					
Related Programs					
8					
9					
10					

Notes: Affected programs are those directly subject to funding increase/decrease or re-allocation; related programs are those which have not been directly affected by any changes in funding but the performance of which might be affected by cuts or re-allocations in other programs

Annex 5

Terms of reference of baseline review of the Ministry of Social Development, New Zealand

The Treasury
Ministry of Social Development (MSD) Baseline Review Information
Release June 2019

This document has been proactively released by the Treasury on the Treasury website.[61]

Information Withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act).

Where this is the case, the relevant sections of the Act that would apply have been identified.

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

[1] 9(2)(a) - to protect the privacy of natural persons, including deceased people

[2] 9(2)(c) - to avoid prejudice to health and safety measures

[3] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[4] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

[5] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organizations, officers and employees from improper pressure or harassment

[6] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

[7] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

[8] Out of scope for this release.

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

---

[61] https://treasury.govt.nz/publications/information-release/msd-baseline-review
Accessibility: The Treasury can provide an alternate HTML version of this material if requested. Please cite this document's title or PDF file name when you email a request to information@treasury.govt.nz.

MSD Baseline Review: Terms of Reference

The Minister of Finance and the Minister of Social Development have decided that parts of the Ministry of Social Development's operating baseline be reviewed, involving a "deep dive" into some areas of current spending looking at the effectiveness of that spend.

The review will be jointly conducted by the Treasury and the Ministry of Social Development.

Context

This review is taking place at a time when MSD has gone through several changes in recent years, including the splitting off of Oranga Tamariki, the Welfare Expert Advisory Group, changes to MSD's role in social housing, an internal review of their Corporate Services and a review of its shared services arrangement with Oranga Tamariki.

As exemplified by the Budget 2018 reprioritization exercise, the government seeks best value for money from current spending and is prepared to reallocate funding to achieve better outcomes. At the same time, the government wants agencies to be properly funded to achieve those outcomes. This baseline review supports both of those purposes, by seeking to understand better the returns from current spending, and assessing future funding needs.

It is envisaged that a baseline review will address issues of value for money, cost pressures and reprioritization to feed into the following budget. In MSD's case with this review, the aim is that the resulting Ministerial decisions will form part of Budget 2019 and provide Ministers with options for an agreed funding path for the department's operations over the short to medium term.

Objective

The review's primary objectives are to understand current spending, develop a picture of the future baseline requirements for MSD and to enable it to have adequate resources, in the right places, to deliver on its strategy and the government's wellbeing priorities. In the past, cost pressure bids have generally been assessed on their individual merit and on a case-by-case basis, with the starting point that pressures should be managed within fixed nominal baselines. The review will build a base level of information from which better judgements can be drawn on:

- the efficiency and effectiveness of current spend and therefore the extent to which:
  - cost pressures can realistically be absorbed or whether additional spend is needed to address these;
  - current spend is effective in achieving client outcomes.
- an understanding of coming cost pressures, identifying the drivers of those costs, with the view to building the future picture of the Ministry's funding;
- risks including policy decisions or key areas of uncertainty that may have an impact on the future baseline; and
- potential innovations that may have an impact on the future baseline.

A key task is to identify those areas of current spending which are of low value and not achieving the outcomes intended. If any funding is freed up from this, it would be available to address cost pressures and alternative, more effective, interventions to lift the wellbeing of New Zealanders. A guiding principle is that before increased funding will be considered, the review must first have demonstrated that MSD has reallocated/will reallocate funding from within its current baseline and exhausted other options.

The review team has several policy tools available (Marginal Cost Analysis (MCA), Cost Utility Analysis (CUA), Cost Effectiveness Analysis (CEA), financial Cost-Benefit Analysis (CBA) and wider Cost-Benefit Analysis (CBAx)) and will apply the appropriate one(s) to the evidence according to the circumstance and issue under analysis.

In Scope

The review is to focus on the core operational activity of MSD. The review will focus on approximately $1.4 billion of appropriations across Votes Social Development and Social Housing (excluding benefits or related expenses (BOREs), non-departmental capital expenditure and those appropriations transferring to the new Ministry of Housing and Urban Development). The review will advise on:

- Value for money and the effectiveness of expenditure (including services both delivered by the Ministry and contracted out to third party providers)
- Alignment of baseline expenditure to MSD's strategy (and ability to deliver on it) and the government's wellbeing priorities. Have the right interventions been adopted and are the intended outcomes being achieved?

- Cost pressures over the next years and alignment of those to the above strategy and priorities. (includes workforce issues, Information and Communication Technologies (ICT) functions, and general overheads)
- Options to manage within different funding paths.

Out of Scope

The following are out of scope:

- Social assistance payments, income adequacy, and matters captured by the Welfare Expert Advisory Group (acknowledging there may be a little overlap with WEAG).
- Public housing appropriations transferring to Vote Housing and Urban Development.
- Revisiting MSD's strategic direction (2018).

Governance

The Minister of Finance and the Minister of Social Development will receive the findings of the review and, in consultation with other relevant Ministers, will make decisions based on the advice from that review. Decisions will be actioned in, and form part of, Budget 2019.

A steering committee, chaired by a Treasury senior manager and comprising an equal representation from the Treasury and MSD, shall oversee the work of the review team.

The review team will be drawn from the Treasury and Ministry as appropriate. The Ministry shall in addition make available its staff on a as needs basis to help inform the review team. External expert advice may also be engaged, if necessary, to advise on technical or specific areas.

The review team will assess and draw conclusions from the available evidence and data. The steering committee will collectively resolve any differences of interpretation which the review team is unable to.

Each department will bear its own costs, with the costs of any external advice commissioned shared equally between the departments.

Deliverables and Milestones

A final report is due with the two Ministers on 31 January 2019. Provision should also be made for a possible mid-review briefing for Ministers as conclusions and recommendations are about to be drawn. The review will occur in four phases.

Table 11. Deliverables and Milestones

Phase	Responsible	Milestone
Information gathering: agency overview; full financial data set; 4 year plan; historic pattern of cost pressures and forecast of future cost pressures; evaluation and evidence of programmes' effectiveness.	MSD	31 August 2018
Analysis: Data interrogation and follow up across four dimensions: ☐ Effectiveness ☐ Efficiency ☐ Durability and resilience ☐ Accountability Testing of findings.	Review Team	By 15 October 2018
Review team tests findings with steering group	Review team/steering group	By 15 October 2018
Options development: recommended option tested	Review team; tested with Steering Group	By 30 November 2018

Phase	Responsible	Milestone
Draft findings / advice to joint Ministers	Review team draft; steering group sign off; discussion with Ministers	30 November 2018
Recommendations and Reporting: Final conclusions drawn; report writing.	Review Team drafting; Steering Group sign off	31 January 2019
Decision making	Joint Ministers	February 2019, as part of Budget 2019
Postscript: An evaluation plan of the effectiveness and success of the solution should be agreed following ministerial decisions	MSD and Treasury	To be conducted over the succeeding 12-24 months.

Annex 6

Analysis of proposed savings / expenditure cuts

Table 12. Impact of propose savings on non-financial performance[62]

1. LM / State agency

1.1. LM / State agency name ______________________________

1.2. Names of other LM / state agencies affected by the proposal ______________________________

2. LM / State agency

2.1. Name ______________________________

2.2. Code ______________________________

2.3. Type of the intervention ☐ Goods and services ☐ Transfers

☐ Other (please describe) ______________________________

2.4. Description of the intervention ______________________________

3. Justification of proposed expenditure cut

3.1. Purpose ______________________________

____

3.2. Description ______________________________

____

3.3. Expected benefits ______________________________

____

[62] An adapted version of the template used for new initiatives in Medium-Term Expenditure Framework (MTEF) / budget guidelines of the Ministry of Finance of the Republic of Armenia.

4. The nature of the proposal on expenditure savings for policy measure

☐ Change in the level of resources used

☐ Change in the types / mix of resources used

☐ Use of the alternative of "produce vs purchase"

☐ Other (please describe) ______________________________

5. Justification of proposed expenditure cut

____

____

____

6. Non-financial performance results

6.1. Description of non-financial performance results (at the current level of funding)	Unit of measurement	Current, Actual	Estimated for the Current Year	Year +1	Year +2
....	....	....	....	....	....

6.2. Description of non-financial performance results (at the proposed level of funding)	Unit of measurement	Current, Actual	Estimated for the Current Year	Year +1	Year +2
....	....	....	....	....	....

7. Uses of proposed expenditure cuts

☐ Reduction in the expenditures of the LM / state agency

☐ Re-allocation to other policy measures

Please identify the target policy measure and describe the impact of reallocation on it (you may want to add estimates of non-financial performance results like those used in section 6.1 and 6.2 ______________________________

____

8. Other alternatives for the delivery of this policy intervention (at different possible levels of expenditure cuts)

____

9. Other relevant information and justifications

____

10. Changes in Expenditures

Expenditure item by economic classification	Initial estimated expenditures of the policy measure ('000AMD)			The level of proposed saving ('000AMD) (+/-)			Estimated expenditures after proposed savings ('000AMD)		
	Current year	**Year +1**	**Year +2**	**Current year**	**Year +1**	**Year +2**	**Current year**	**Year +1**	**Year +2**
Name of expenditure item by economic classification									
Name of expenditure item by economic classification									
…									
Total									

Annex 7

List of persons consulted

- **Anthony Higgins**, Public Financial Management Specialist, Australia
- **Bruce Stacey**, Public Financial Management Advisor at Caribbean Regional Technical Assistance Centre (CARTAC)
- **Graham Scott**, Chairman of New Zealand Productivity Commission, Chairman, Southern Cross Advisers, Adviser to 40 countries on public management and economic policy, Consultant to World Bank and DFID, Secretary to New Zealand Treasury
- **Ivor Beazley**, Lead Public Sector Specialist, World Bank
- **Lynne McKenzie**, Adviser: law, economics, finance, management, New Zealand, Managing Director of Southern Cross Advisers, NZ
- **Mark Byers**, Former Chairman of the Officials Committee on Expenditure Control, New Zealand, the first Chief Executive of the New Zealand Department of Corrections
- **Nordia Campbell**, Budget Director, Budget Office, Turks and Caicos Islands government
- **Rohit Samaroo**, Director of Analytics - Treasury Board Secretariat, Ontario, Canada
- **Shahlaa Al-Tiay**, Senior Analyst, New Zealand Treasury
- **Simon Groom**, Member of Counterpoint Consulting Network, UK

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO

THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP

MINISTRY OF FINANCE
OF THE RUSSIAN FEDERATION

European Union