

**SUPPORTING THE IMPLEMENTATION OF SPENDING REVIEWS IN PORTUGAL**

**Final Report**

**September 2024**

## Chapter 1. Project summary

### 1.1. Context

1. Portugal has been conducting spending reviews since 2010. Specifically, Portugal underwent three phases of implementation:
  - From 2010 to 2016, Portugal underwent an IMF's economic and financial adjustment program which supported the implementation of an expenditure review process based on analysis of the main expenditure areas (Social Protection, Health, Education and Security). These efforts have resulted in expenditure cuts and efficiency gains to support the achievement of sound public finances following the Global Financial Crisis.
  - From 2017 to 2019, Portugal pursued further efforts to institutionalise spending reviews. A Task Force was created by the Ministry of Finance to lead the process. In an effort to more closely link reviews to the budget process, the Ministry of Finance requested spending entities to identify savings/efficiency gains as part of its annual budget circular. An incentive scheme was created that provided financial and non-financial rewards to incentivize the public administration to identify high performance services and areas for expenditure reduction.
  - From 2020 to mid-2022, spending reviews have continued to take place, with GPEARI taking over the role on leading the spending review process, following the discontinuation of the taskforce.
2. Despite initial successes in identifying savings and efficiencies in priority sectors such as health, education and administrative modernisation, spending reviews had not delivered expected results before the start of the project. In early 2022, the Ministry of Finance conducted a diagnostic of the existing process for spending reviews and identified significant challenges in effectively implementing spending reviews, including a complex and flawed process; weak oversight and monitoring of results achieved; and lack of incentives for line ministries to participate.<sup>1</sup>
3. Addressing these challenges was considered crucial by the Ministry of Finance to address the European Commission's 2022 Country-Specific Recommendation on the need for a prudent medium-term fiscal policy and meet the Portuguese Recovery and Resilience Plan (RRP) commitment related to spending reviews.<sup>2</sup> Therefore, in October 2022, the Portuguese Ministry of Finance, through its Office for Economic Policy and International Affairs (*Gabinete de Planeamento, Estratégia, Avaliação e Relações Internacionais*, GPEARI), submitted a request for technical support under the Technical Support Instrument

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<sup>1</sup> These challenges have been analysed also in a detailed manner in a recent report of the Portuguese Court of Auditors (<https://www.tcontas.pt/pt-pt/MenuSecundario/Noticias/Pages/n20240716-1.aspx>).

<sup>2</sup> As part of its RRP, Portugal is committed to integrate "the spending review exercise into the regular budget process, including an ex-post evaluation of past efficiency gains" by Q4 2024.

(TSI) Programme of the European Union for a project on “Supporting the implementation of spending reviews in Portugal” (23PT41).<sup>3</sup> This project benefited from the technical support of the OECD.

## 1.2. Objectives

4. The objectives of the project was to support Portugal in implementing its RRP commitment by:
- Conducting a review of Portugal’s spending review framework, against the OECD Best Practices for Spending Review and other relevant international best practices.
  - Providing recommendations on how to improve the existing framework and delivering an action plan to support the implementation of these recommendations.
  - Providing support for implementing the new framework and building capacities in the Ministry of Finance, through methodological guidance, capacity-building workshops and peer-to-peer knowledge exchange with other OECD countries.

## 1.3. Activities

5. The main activities implemented by the OECD for this project are as follows:
- Prepare a technical report on Portugal’s spending review framework, including a preliminary high-level version, as well as an action plan based on the technical report.
  - Implement on the ground missions to assist in implementing recommendations of the technical report.
  - Organise jointly with the Ministry of Finance capacity building activities including trainings, workshops and preparation of manuals.
  - Prepare material for the project management, including an inception report, kick-off meeting minutes and the present final report.
6. As part of these activities, OECD supported Portugal’s peer-to-peer exchanges with other OECD countries, including Czechia, Greece, Ireland, Slovakia or Spain. These exchanges aimed at discussing good practices and lessons learned by other countries in implementing spending reviews.

## 1.4. Results achieved

7. As part of the project, the Ministry of Finance made significant progress in implementing the action plan prepared by the OECD. Indeed, of the 17 recommendations of

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<sup>3</sup> Regulation (EU) 2021/240 of the European Parliament and of the Council of 10 February 2021 establishing a Technical Support Instrument.

the action plan, nine have been fully completed, and two are partially completed (Table 1.1. Portugal: Implementation status of recommendations at different timings ).<sup>4</sup>

8. The remaining six recommendations are mostly for the medium to long term, which means that the foreseen implementation period spans beyond the timeframe of the project. The way forward for these recommendations is therefore discussed in Section Chapter 3. . Next steps and follow-up actions for Portugal are described next on this report.

**Table 1.1. Portugal: Implementation status of recommendations at different timings (2024)**

Implementation status	ST (Q3 2023-Q2 2024)	MT (Q3 2024 - Q2 2026)	LT (from Q3 2026)	Total
Completed	6	3		9
Partially completed	1	1		2
Pending	2	2	2	6
Total	9	6	2	17

Source: OECD.

9. The overall picture that arises from the project’s implementation is that the strengthening of the spending review framework in Portugal is firmly on track:

- A new spending review governance has been established with a Ministerial Order that puts the Ministry of Finance in the driving seat, but that simultaneously acknowledges the crucial role of line ministries.<sup>5</sup>
- A new framework has been established, underpinned by a set of “spending review manuals”, which addresses previous issues concerning lack of clarity on methodologies and processes for spending reviews.<sup>6</sup>
- Capacity for spending reviews have been strengthened through trainings and workshops organised for both the Ministry of Finance and line ministries, as well as other stakeholders.

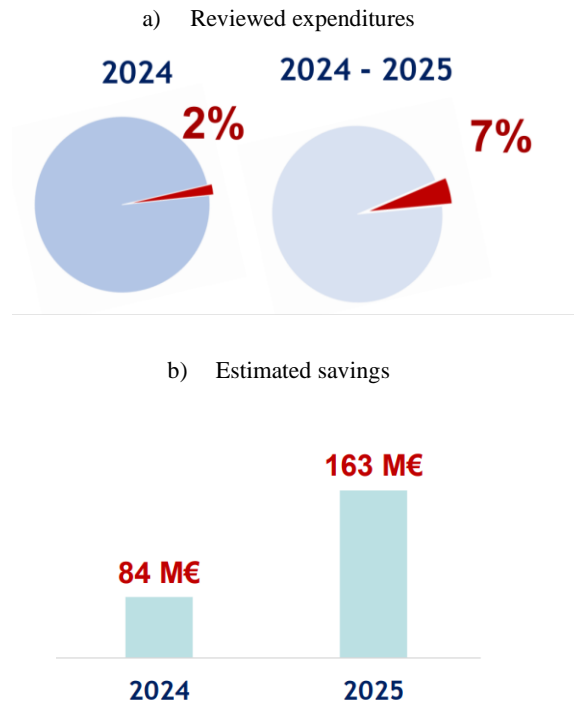
10. From an operational perspective, it is notable that the Ministry of Finance has already conducted two spending review rounds under the new framework since the start of the project. GPEARI estimates that the scope of spending reviews increased from 2% to 7% of Central Administration expenditures from the first to second spending review round. Foreseen savings have been estimated at EUR 84 million in the first spending round and EUR 163 million in the second spending round (Figure 1.1. Portugal: Scope of spending reviews, quantification by GPEARI (2024, 2024-2025)).

<sup>4</sup> A detailed implementation status of the action plan is available in Annex A Implementation status of the Action Plan.

<sup>5</sup> Ministerial order n.º 7690/2023/MF.

<sup>6</sup> Manuals on the “Design and execution of spending reviews” and “Monitoring of spending reviews” have been published on GPEARI’s website. These manuals will be updated as needed as the national spending reviews framework evolves. Additionally, a guidance on “Public Reporting and Disclosures of spending reviews” has been prepared under the project.

Figure 1.1. Portugal: Scope of spending reviews, quantification by GPEARI (2024, 2024-2025)



Source: GPEARI presentation, workshop of 18 June 2024.

## Chapter 2. Challenges and opportunities identified as part of the project

11. The **new spending review framework** in Portugal provides a substantial opportunity to fulfil the budgetary principles of economy - efficiency, and effectiveness in public financial management - as outlined in Article 18 of the BFL. This is enabled by a strong governance structure supported by a Ministerial Order and a clear framework guided by the 'spending review manuals..<sup>7</sup>

12. A key challenge in the past in Portugal has been maintaining **political momentum** for spending reviews. This risk has not disappeared yet and arises from the continuous need for politicians to see spending reviews as an integral part of their fiscal management toolkit. Therefore, it will be important going forward that the political level has a clear understanding of i) the benefits associated with spending reviews, and ii) their role in the budget process. In order to support such understanding, the last workshop of the project was aimed at the Cabinets of the Ministries under the incoming Government (after the change of Government in the beginning of 2024). The workshop, attended by representatives from all Ministries' Cabinets, was inaugurated by the Minister of Finance.

13. Another key challenge has been to effectively **engage line ministries**, as their involvement is crucial for the success of spending reviews. Yet, maintaining their commitment could be difficult over time as they often perceive spending reviews as an externally imposed task, rather than an integral part of their budget process. Additionally, these ministries may lack the necessary resources and expertise to conduct thorough reviews, which further hinders their involvement. Engaging more effectively line ministries will require a **progressive cultural shift**, ensuring that spending reviews are valued not just as cost-cutting standalone measures, but as tools for improving overall public sector performance and accountability. While the new framework for spending reviews and the series of workshops organised as part of the project provides the basis to support such a shift, mitigating the risk of disengagement will require sustained efforts going forward, to demonstrate the value of spending reviews and to ensure they are perceived as beneficial for all.

14. The **lack of a comprehensive system for estimating the medium-term costs of existing policies** (baselines) presents challenges for implementing spending reviews. Baselines have to be constructed using ad-hoc assumptions, with risks of inconsistencies and inaccuracies. Moreover, without a programmatic classification of the budget, deriving the necessary figures involves extracting data from various other classifications, such as administrative or economic categories, adding to the complexity.<sup>8</sup> This process is not only time-consuming but also highly sensitive, as the perceived savings from reforms are directly influenced by the baseline assumptions. Therefore, the development of a clear and sound

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<sup>7</sup> Improvements to the spending reviews frameworks have been highlighted by the Portuguese Court of Auditors in a recent report (<https://www.tcontas.pt/pt-pt/MenuSecundario/Noticias/Pages/n20240716-1.aspx>).

<sup>8</sup> The programme budgeting reform is currently at pilot stage in Portugal.

methodology for baseline estimation and of a programmatic basis for the budget, which are components of the wider PFM reforms implemented in Portugal, will be important for supporting the credibility of spending reviews.

15. Challenges with **implementation and monitoring of spending reviews** in Portugal have been significant in the past, as underlined in a recent report of the Portuguese Court of Auditors.<sup>9</sup> This is because robust oversight and follow-through on recommendations were lacking, resulting in insufficient follow-up on spending reviews measures, and ultimately undermining its credibility. The development of a comprehensive monitoring framework, including detailed manuals and reporting templates, should help overcoming such challenges in the future, but will require commitment and appropriate resources.

16. Finally, the **creation of the Permanent Technical Monitoring Team (PTMT)**, dedicated to supporting spending reviews has been a crucial success factor for the implementation of the project and roll-out of the first two spending reviews' rounds. The PTMT's role in providing consistent oversight, technical expertise, and continuity across spending reviews aligns with international best practices and enhances the potential for systematic analysis and implementation of recommendations. Going forward, it is important that resources are maintained and ideally strengthened – for example by ensuring its staff are working on spending reviews on a full-time basis – in particular if ambitions for spending reviews are followed through and scaled up.

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<sup>9</sup> See reference above.

### Chapter 3. Next steps and follow-up actions for Portugal

17. Portugal has committed to further strengthening its spending review framework through a follow-up project funded by the European Union's TSI programme. This initiative aims to enhance Portugal's public financial management framework, making it more supportive of both the execution of spending reviews and the monitoring of their implementation.

18. Specifically, as part of this project, the OECD will support Portugal by developing comprehensive methodologies for costing new policies, existing programmes, and constructing baselines. These activities will ensure that the technical capacities of Portuguese officials are enhanced, enabling more accurate and consistent baseline estimates and policy costings. Furthermore, the project will include the development of manuals and a series of training sessions to ensure the practical application of these methodologies.

19. In line with the action plan prepared under the project, it is suggested that the Ministry of Finance also considers the following follow-up actions to consolidate the spending reviews framework, thereby enhancing its visibility and legitimacy within the budget process:

- Enhance the communication with the Council of Ministers, provide regular updates to line Ministers and foster their involvement in key stages of the reviews, in order to ensure that spending reviews are integrated and appropriately prioritized into line with ministries' activities.
- Increase transparency on spending reviews by publicly releasing their terms of reference and more detailed summaries of their results.
- Include in the BFL of a provision stating that the Government shall conduct an annual spending review exercise under the leadership of the Ministry of Finance to inform the formulation of the MTBF, MTEF, and annual budget, and revise the Ministerial Order that defines the governance of spending reviews accordingly.

20. In addition, the Ministry of Finance should aim to set objectives for future spending reviews rounds that are responsive to fiscal challenges and opportunities identified as part of the formulation of the medium-term fiscal plans, as well as support the BFL's principle of economy - efficiency and effectiveness in public financial management. In the future, the Ministry of Finance should continue being proactive in identifying ambitious topics for spending reviews and consider expanding these reviews to cover the entire general government expenditure.



## Annex A. Implementation status of the Action Plan

The table below shows the individual recommendations of the action plan and indicates to what extent each recommendation has already been completed. In addition, the table mentions some comments that shed light on the context of implementation.

Action plan items	Implementation status	Comment
<b>1. Legal framework</b>		
1.1 Lengthen the time frame for spending reviews, in particular to allow for a longer parameters stage for each annual round of reviews.	Completed	The Manual on "Design and execution of spending reviews" specifies the recommended calendar. The first and second round took place in compressed time schedules of three and five months (July-September 2023 and January-May 2024 respectively).
1.2 Review the legal framework for spending reviews by 2026. Include incorporating spending reviews into the Budget Framework Law.	To be completed until 2026 at the occasion of the revision of the Budget Framework Law.	The Ministry of Finance intends to revise the Budget Framework Law (BFL). GPEARI has made a proposal for incorporating Spending Reviews into the BFL.
<b>2. Spending Reviews model</b>		
2.1 Specify the means for fostering the joint approach to spending review in the Manual on "Design and execution of spending review" (for instance agreement on chair, common secretariat).	Completed	The Manual specifies the means for the joint approach to the SR. The draft report of the Court of Auditors on spending review also emphasises the importance of the joined approach.
2.2 Develop a strategy for communicating the benefits of spending reviews to the line ministries.	Partially completed	The newly created PTMT conducted an awareness raising event in June 2024 on spending reviews with representatives of the new ministerial cabinets following the elections and the appointment of a new Government. A new coordinator for the Spending Review exercise has been appointed by the Minister of Finance in June 2024.
<b>3. Governance</b>		
3.1 Strengthen resources of the PTMT, including through the use of external consultants.	Partially completed.	The PTMT originally began with three staff members who are not totally dedicated and have other duties. Currently, the team consists of two staff members and a coordinator.
3.2 Foster communication and collaboration with bodies in charge of policy evaluation, incl. PlanAPP, and considering as a next step expanding the spectrum of stakeholders involved in the governance structure.	Completed.	PlanApp was invited to join the workshop on Manuals for spending review. The PTMT has established ongoing working relationship with PlanAPP.
3.3 Consider providing for a formal role for the Council of Ministers, Minister of Finance, and State Secretary for the Budget in the governance structure of spending review.	To be completed by the time of revision of the legal framework.	This reform requires that the legal framework be enshrined in the national law through a Government decree, rather than a Minister of Finance decree.
<b>4. Integration in the PFM framework</b>		
4.1. Lengthen the time frame for spending review rounds to provide for more time for selecting topics and preparing Terms of Reference.	Completed	The calendar of the Manual on "Design and execution of spending review" will be adhered to from September 2024.
4.2 Develop a methodology for policy costing that will support the setting of medium-term baselines.	Will be part of the follow up project with the OECD.	The follow up project will start in October 2024.
4.3 Strengthen the medium-term programme budgeting frameworks and integrate the various reform streams so that they are mutually supportive.	Will be part of the follow up project with the OECD.	The follow up project will start in October 2024.

Action plan items	Implementation status	Comment
<b>5. Implementation of spending reviews</b>		
5.1 Develop a formal, inclusive, and criteria-based process for collecting spending review topics and maintaining a catalogue of topics.	Completed.	The Manual on the "Design and execution of spending review" specifies the process for a criteria-based collection of spending review topics. For the 2025 round, the PTMT conducted a consultation in September 2023 with key stakeholders within the Ministry of Finance (including GPEARI, Directorate-General of Budget, General Inspectorate of Finance, and the Tax and Customs Authority) to gather input on potential topics. As a result, they established a list of topics for review.
5.2 Develop a manual on "Design and execution of spending reviews", detailing responsibilities, tasks, timelines, and templates, etc. and ensure annual updates.	Completed.	The Manual was completed in April 2024 after a workshop aimed at collection of comments from key stakeholders. It was published in July 2024 in PT and EN.
<b>6. Decisions on options, monitoring, and reporting</b>		
6.1 Develop a manual on "Monitoring spending reviews" detailing responsibilities, tasks, timelines, and templates, etc. and ensure annual updates.	Completed.	The Manual was completed in April 2024 after a workshop aimed at collecting comments from key participants. Updates will be conducted when necessary.
6.2 Develop a reporting template for annual communication i) of new decisions in the budget documentation, and ii) of implementation in the State Accounts.	Completed.	The template was proposed as part of the Manual on "Public Reporting and Disclosures on spending reviews". The Manual was completed in April 2024 after a workshop aimed at collection of comments from key stakeholders. It is to be noted that information on implementation results is currently planned to be communicated in dedicated monitoring reports, rather than in the State Accounts.
6.3 Consider the publication of the Terms of Reference and the report of every spending review.	Pending.	Still under consideration from the Ministry of Finance and the General Coordination Team (political level).
<b>7. Capacity building</b>		
7.1 Develop a training package on spending reviews and provide regular training opportunities to line ministries.	Pending.	As part of the project, slide decks on "introduction to spending reviews" and "presentation of Manuals" have been developed by the OECD and shared with the PTMT. The PTMT has provided training opportunities to the thematic teams but needs to develop a training plan going forward. (This was planned to be completed by the second quarter of 2024, but due to large efforts to complete the second round of reviews, this had to be somewhat postponed until the next spending review round).
7.2 Create a dedicated Spending Review webpage on the GPEARI and/or DGO websites.	Completed.	See GPEARI website <sup>10</sup> .

<sup>10</sup> <https://www.gpearl.gov.pt/web/pt/fp-revisao-de-despesa-publica>