

Integrating regular spending reviews and policy evaluations into the medium-term budget framework in Estonia and Finland

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Technical Support Instrument

Supporting reforms in 27 Member States



Inception Report

January 2024

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Abbreviations

Term	Definition
CSR	Country-Specific Recommendation
DG REFORM	The European Commission's Directorate-General for Structural Reform Support
EC	European Commission
EE MoF	Estonian Ministry of Finance
EMU	Economic and Monetary Union
EU	European Union
FI MoF	Finnish Ministry of Finance
GDP	Gross domestic product
IMF	International Monetary Fund
ICT	Information and Communications Technology
MTO	Medium-term budgetary objectives
OECD	Organisation for Economic Co-operation and Development
PM	Project manager
PwC	PricewaterhouseCoopers
RASCI Matrix	Responsibility Assignment Matrix: Responsible, Accountable, Supportive, Consulted, Informed
RfS	Request for Service
SGP	Stability and Growth Pact
SMART Framework	Project Management Framework: Specific, Measurable, Achievable, Relevant, Time-Bound
SSSC	The State Shared Service Centre
SWOT	Strengths, Weaknesses, Opportunities, and Threats analysis
TBD	To be determined
TFEU	Treaty on the Functioning of the European Union
VAT	Value Added Tax

Executive summary

Purpose of the inception report

The purpose of this report is to set the basis for all operational aspects of the Project and ensure that there is a common understanding among the parties involved. Following the methodology presented in the kick-off meeting on 30 November 2023, this report covers all agreed operational aspects of the Project, including PwC's interpretation of the Project scope, methodology, suggested timeline, roles, information needs, fact-finding mission and as-is analysis.

The report has been reviewed and approved by the Beneficiaries and DG REFORM.

Structure of the report

1. Project background and primary objectives

2. Project stakeholders and their expected roles and involvement

This section includes a description of roles and responsibilities. PwC will be responsible and accountable for the execution of the Project's outputs and will actively engage and consult the representatives from DG REFORM as well as of the Beneficiary.

To oversee the progress of the Project, the Project's Steering Committee, representing DG REFORM, Beneficiary and PwC, is set up. The Project team will be responsible for the execution of the Project activities. Collaboration among stakeholders will be facilitated by PwC.

The section includes a stakeholder matrix representing the stakeholders' influence and interest in the Project, as well as a detailed stakeholder engagement plan to achieve the necessary participation from the stakeholders.

3. Detailed work plan and agreed timeline of key deliverables

This section includes a detailed work plan explaining the timeline for the activities to be carried out and deliverables to be submitted to fulfil the outputs of the Project. It is estimated that the actual work on the Project will last 22 months (based on the new updated timeline), from the Inception phase in October 2023 up until the last output, which is expected to be delivered in August 2025.

4. Detailed methodology for each deliverable

This section includes a detailed methodology, describing the planned activities and needed stakeholder input to deliver the 10 deliverables of the Project:

- Deliverable 1 – Inception Report.
- Deliverable 2 – Technical report on international good practices on the design, structure, governance and implementation of spending reviews.
- Deliverable 3 – Technical report with recommendations for a structured spending review process.
- Deliverable 4 – Manual for doing spending reviews in Estonia.
- Deliverable 5 – Joint seminar to present and exchange the Technical reports with recommendations for a structured spending review process and on the spending review manual.
- Deliverable 6 – Final Report and Closing Event for Finland.
- Deliverable 7 – Capacity-building workshops for Estonia (with Finland as observer).
- Deliverable 8 – Report on facilitating pilot spending reviews on selected areas and facilitating workshops and seminars to help institutionalise spending reviews end evaluations in Estonia.
- Deliverable 9 – Final Report, Closing Event for Estonia.
- Deliverable 10 – Progress Reports.

5. Project risks, progress and monitoring indicators

This section includes risks and mitigation measures as well as Project monitoring indicators. For each risk identified as an obstacle to reaching a successful Project implementation, specific and

	realistic Mitigation Actions will be proposed so that they can be implemented in a timely manner and will not seriously hinder the successful implementation of the Project.
6.	Overview of working arrangements and modality of communication
7.	Common agreements after the kick-off meeting, minutes of the kick-off meeting <ul style="list-style-type: none"> • Approach, main objectives and timeline discussions. • Level of detail and focus areas regarding deliverables. • International practices countries. • Stakeholder involvement, administrative arrangements and upcoming next steps. • Needs for data and information.
8.	Country-specific as-is analysis
Key findings from the AS-IS analysis	
9.	Estonia <ul style="list-style-type: none"> • The first two pilot spending reviews were published in 2017 and 2018 and since then in total of 4 spending reviews have been conducted (2017, 2018, 2020, 2022). Additional 4 spending reviews are underway differing in status. • The use cases and procedural understanding of the spending review instrument heavily varies among the officials in Estonia and the use of spending reviews has not become a regular process integrated with the state budget planning and decision making. • Previous spending reviews have not been overly ambitious in their budgetary scope. • Regulated requirements (i.e., impact assessment for proposals, implementation deadline, determining the responsible party, decision making by the Government) are not always presented in the published spending review reports. Furthermore, not all finished spending reviews have been made publicly accessible. • There is no regulation and practices regarding implementation of spending review proposals. • There are currently no regulation, requirements, and practices for integration of spending reviews and evaluations. The aim of spending reviews is to identify explicit savings options and the purposes of spending reviews are narrower than those of an evaluation of public policy, which is fundamentally a broader and a more general policy-supporting instrument. • Previous political interest towards spending reviews has been limited, but the new Government has initiated several budgetary revision projects such as the zero-based budgeting initiative and horizontal analysis, which could potentially create basis for the efficient and regular use of spending reviews as a part of state budget planning.
10.	Finland <ul style="list-style-type: none"> • The first spending review was published in 2015 and since then in total of 4 spending reviews have been conducted (2015, 2016, 2019, 2023). Even though the latest spending review from 2023 exhibited a well-defined scope, objectives, process of conducting the review and methodological approach, recommendations for improving general government finances, etc., the spending review process has not been institutionalised yet. • All previous spending reviews were led by the Ministry of Finance (MoF) and performed by the assigned working group that consisted of experts from within the Budget Department. There is a certain degree of cooperation with the line ministries, but no procedures/provisions to formalise the ministries' contribution. • There are several major challenges: the workload of the MoF, the lack of involvement from the line ministries, as well as building trust in the spending review process and overcoming the unwillingness to reallocate spending. • There is no specific legislation on spending reviews neither on national level nor the European level. However, the usage of spending reviews is actively promoted by the European Commission.

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1. Project background and primary objectives

1.1 Project background

As public debt grows and government spending deficits persist across the European Union (EU), the need for high-quality public finances is increasing. The importance of medium-term fiscal sustainability has been emphasised by various institutions. This includes maintaining responsible fiscal positions to ensure sustainable debt levels and foster economic growth.

To facilitate investments while maintaining medium-term sustainability, the governments of **Estonia** and **Finland** must enhance the quality of their public finances. It is crucial to create a fiscal space that enables the allocation of resources to necessary priority areas. **Spending reviews have proven to be effective methods** for achieving these goals.

Spending review is the process of conducting in-depth assessments of existing public expenditure. Spending reviews aim to address issues related to low-priority, inefficient or ineffective spending. Spending reviews are an essential tool for ensuring the sustainability of public finances and enhancing the efficiency and quality of public spending. When being prepared sufficiently, spending reviews provide opportunities to identify saving options based on a thorough evaluation of spending performance and efficiency.¹

Spending reviews can be categorised into different types based on their scope. The two primary classifications are **comprehensive** spending reviews and **targeted** spending reviews. Comprehensive spending reviews represent an all-encompassing approach to reviewing government expenditures as they are not confined to predefined review topics. Typically conducted periodically, comprehensive spending reviews allow the identification of ways to meet fiscal consolidation needs within a singular process. In contrast to comprehensive reviews, targeted spending reviews focus on specific, predefined categories of government spending, resulting in a more in-depth analysis of the chosen scope. Also known as selective spending reviews, targeted reviews might be conducted in the form of programme reviews, policy area reviews, process reviews or agency-specific reviews.² Determining the scope for a spending review is a significant strategic decision that involves aligning with political priorities and fiscal objectives to ensure that the review contributes meaningfully to fiscal management.³

Spending reviews may also be categorised into groups based on their objectives, ranging from **strategic** spending reviews to **efficiency** spending reviews. With strategic spending reviews, the objective is to realign expenditure allocation with overarching government priorities. In contrast, efficiency spending reviews focus on identifying savings through improved efficiency and optimising resource allocation.⁴ Both play crucial roles in achieving optimal outcomes in public spending.

Both countries have experience in conducting spending reviews to some extent. **Estonia** has carried out spending reviews in two phases: 1) through a pilot phase from 2016 to 2018, and 2) with the support from DG REFORM, from 2019 to 2022. Estonia has initiated eight spending reviews, of which four are completed

¹ IMF (2022). "How to Design and Institutionalize Spending Reviews". <https://www.imf.org/en/Publications/Fiscal-Affairs-Department-How-To-Notes/Issues/2022/09/20/How-to-Design-and-Institutionalize-Spending-Reviews-523364> pp.1-2.

² IMF (2022). "How to Design and Institutionalize Spending Reviews". 2020. <https://www.imf.org/en/Publications/Fiscal-Affairs-Department-How-To-Notes/Issues/2022/09/20/How-to-Design-and-Institutionalize-Spending-Reviews-523364> pp. 3. See also "Spending reviews" (OECD Journal on Budgeting https://read.oecd-ilibrary.org/governance/spending-reviews_budget-13-5jz14bz8p2hd#page4) on OECD terminology, OECD typically uses the term selective spending review instead of the targeted spending review.

³ Bova, Elva et al. "Spending Reviews: Some Insights from Practitioners." Directorate-General for Economic and Financial Affairs, 3 Dec. 2020, Discussion Paper 135 https://economy-finance.ec.europa.eu/system/files/2020-12/dp135_en.pdf pp. 9.

⁴ Bova, Elva et al. "Spending Reviews: Some Insights from Practitioners." Directorate-General for Economic and Financial Affairs, 3 Dec. 2020, Discussion Paper 135 https://economy-finance.ec.europa.eu/system/files/2020-12/dp135_en.pdf pp. 9. And "Spending reviews" (OECD Journal on Budgeting https://read.oecd-ilibrary.org/governance/spending-reviews_budget-13-5jz14bz8p2hd#page3)

and published. **Finland** started conducting spending reviews in 2014. Since then, a total of four spending reviews have been completed and published, the most recent one being in the spring of 2023. The first three spending reviews have been descriptive in nature, while the latest one significantly differs in its content and goals (please see Chapter 3 Finland as-is analysis). However, all conducted spending reviews can be considered comprehensive in their scope.

The Project aims to provide support to both Estonia and Finland to design more structured spending review processes, linked to the budgeting framework. The Project also aims to provide support in linking existing evaluation systems to the spending review process in Estonia, to ensure consistency and synergies between two instruments. Over the long term, well-functioning processes to conduct spending reviews, ought to be established in both countries. Structured spending reviews can contribute to achieving the sustainability of public finances and additional fiscal space.

1.2 Macro-economic context

The call for robust public finances has become increasingly urgent in response to escalating public debt levels and enduring fiscal deficits throughout the EU. Research from reputable institutions such as the European Commission (EC) and the International Monetary Fund (IMF) consistently stresses the significance of medium-term fiscal sustainability. The European Annual Sustainable Growth Survey 2024⁵ accentuates fiscal policy's need to support monetary policy in reducing inflation and safeguarding fiscal sustainability while providing sufficient space for additional investments and sustaining long-term growth. Besides maintaining a prudent fiscal strategy, public investment needs to be maintained and, where required, increased to support long-term growth and the green transition. This will require improvements in the quality and composition of public finances on both the revenue and expenditure side.⁵

Governments across the EU face the challenge of enhancing the quality of their public finances to create fiscal space for resource allocation to **priority areas** outlined in the sustainable growth survey. **Implementing spending reviews emerges a proven tool to optimise public finances, support strategic investments, and ensure medium-term fiscal sustainability.**

Estonia: The progress achieved by Estonia over the past two decades in converging toward more advanced EU economies is commendable. However, recent years have seen signs of erosion in external performance, marked by rapid growth in unit labour costs and real exchange rate appreciation. The geopolitical event of Russia's invasion of Ukraine further compounded challenges, leading to inflation spikes, supply chain disruptions, and slower growth in key trading partners within the Baltic regions. In Estonia, these factors, coupled with fiscal tightening in 2022, have precipitated a significant economic downturn, exacerbated by a deceleration in productivity that has further eroded competitiveness.⁶

Despite consistent increases in Estonian public expenditure in recent years, this has not been paralleled by corresponding tax increases. The new government has set a goal to ensure a prudent fiscal policy and has already taken measures such as cost savings and tax increases for 2024. In the same year, the structural balance is targeted to remain at 1.2% of GDP, resulting in a **nominal deficit decrease of 0.4% of GDP to 2.9%**. Both national and EU resources have been employed to streamline shrinking areas while maintaining high-quality public services, with the Estonian Ministry of Finance projecting a net primary expenditure increase below 4.9% in 2024.⁷

Looking beyond 2024, the government plans to revisit expenditures and revenues, targeting a general government structural budget deficit of 1.0% of GDP. Despite Estonia's demonstrated ability to manage government sector costs more efficiently than other EU countries, as reflected in Eurostat data showing **government sector spending at 39.8% of GDP** in 2022 (compared to the EU27 average of 49.7% of GDP)⁸, global trends such as urbanisation, low birth rates, and youth out-migration necessitate ongoing efforts. As Estonia grapples with economic challenges, including the recent downturn and erosion of

⁵ European Commission General Publication (2023). Annual Sustainable Growth Survey 2024. https://commission.europa.eu/system/files/2023-11/COM_2023_901_1_EN_ACT_part1_v6.pdf

⁶ IMF Country Report No.23/275 (July 2023). Republic of Estonia: 2023 Article IV Consultation – press release, and staff report. <https://www.imf.org/en/Publications/CR/Issues/2023/07/26/Republic-of-Estonia-2023-Article-IV-Consultation-Press-Release-and-Staff-Report-537008>

⁷ Ministry of Finance of the Republic of Estonia (October 2023). 2024 Draft Budgetary Plan of Estonia. <https://www.fin.ee/en/media/7874/download>

⁸ Total general government expenditure (2022). Source of data Eurostat. <https://ec.europa.eu/eurostat/databrowser/view/tec00023/default/bar?lang=en>

competitiveness, the continuous pursuit of fiscal responsibility remains pivotal. Regular spending reviews within the government's financial framework will be crucial in adapting strategies to ensure resilience and navigate the evolving economic landscape.

Finland: Since 2009, Finland has grappled with fiscal deficits, resulting in a significant rise in general government debt. The persistent long-term imbalances between government revenue and expenditure are most evident in the central government area, which exhibits the largest deficit.⁹ The combined deficit of the central government administration, municipal administration and the wellbeing services counties is projected to remain at over EUR 14 billion in 2027.¹⁰ Additionally, municipal administration continues to operate under a deficit.¹¹ Health and social services reform also has an impact on the current state of the financial situation in Finland. In 2023, the tasks and organisational responsibility for social and health care services and rescue services were transferred from the municipalities to 21 wellbeing services counties and city of Helsinki.¹² Wellbeing services counties that provide social and health services start their operations with a deficit as well.¹³

Without decisive actions, the debt-to-GDP ratio is expected to surpass 100% in the next decade.¹⁴ Public expenditure is projected to increase, driven by investments in national security, social benefits, and higher interest payments. Furthermore, Finland's population is ageing, which means an increase in spending on health and social care in the coming years. Cost-effectiveness in wellbeing service production will be an important part of restraining expenditure growth in the wellbeing service counties in the future.¹⁵ Simultaneously, revenue from indirect taxes is expected to decline relative to GDP¹⁶.

Finland acknowledges the imperative for efficient public financial management and fiscal sustainability. The IMF's 2022 visit commended Finland's adept handling of the COVID-19 pandemic and recognised structural reforms promoting employment and productivity. However, the conflict in Ukraine has heightened fiscal pressures, leading to the IMF's recommendation for a fiscal consolidation plan in 2023. Persistent concerns about fiscal sustainability necessitate proactive measures. Attention is also required to address employment, productivity, and skill shortages and bolster the banking system's liquidity reserves.¹⁷

According to 2022 Eurostat data, Finland's total general **government expenditures are 53.3% of GDP**, ranking among the highest in the EU member states.¹⁸

In alignment with these challenges, Finland's Ministry of Finance advocates a structured and regular spending review process. This initiative aims to enhance financial decision-making by increasing evidence base for saving measures alternatives and inefficiencies identification as well as facilitating data-driven evaluations of policy changes.¹⁹ General government debt, surpassing the 60% of GDP reference value since 2020, reached 72.9% in 2022 and is projected to rise further. **The general government deficit**, recorded at 0.8% of GDP in 2022, **is expected to increase to 2.4% in 2023** and 3.2% in 2024 before declining, as outlined in the target scenario of the Stability Programme.²⁰ Recognising the urgency of

⁹ Finnish Ministry of Finance, <https://vm.fi/documents/10623/142666320/10> p.1.

¹⁰ Finnish Ministry of Finance, <https://vm.fi/en/-/in-english>.

¹¹ Finnish Government, <https://julkaisut.valtioneuvosto.fi/bitstream/handle/> p. 24.

¹² Finnish institute for health and welfare

https://thl.fi/documents/9716163/11189226/National+Expert+Assessment%2C+autumn+2023_Conclusions+from+the+expert+Assessment_13102023+_Puhdas.pdf/b52bf788-562a-decd-6d70-de79113ecac2?t=1698057250546, p. 3.

¹³ General Government Fiscal Plan for 2024-2027 <https://julkaisut.valtioneuvosto.fi/handle/10024/165191> p. 6.

¹⁴ Kestävä julkinen taloudenpito, kasvu, työllisyys. MIKKO SPOLANDER, YLIJOHTAJA JUKKA MATTILA, FINANSSINEUVOS, HALLITUSNEUVOTTELUT, 3.5.2023, klo 15.45-16.30. p.4.

¹⁵ Finland's Bank (2023). "Assessment of public finances 2022". <https://www.bofbulletin.fi/en/2022/4/finland-s-crisis-hit-public-finances-need-strengthening/>

¹⁶ Finland's Bank (2023). "Forecast for the Finnish economy". <https://www.bofbulletin.fi/en/2023/2/from-shallow-recession-to-moderate-growth/>

¹⁷ IMF Mission Statement (2023) "Finland: Staff Concluding Statement of the 2022 Article IV Mission" <https://www.imf.org/en/News/Articles/2022/11/16/>

¹⁸ Total general government expenditure (2022). Source of data Eurostat. <https://ec.europa.eu/eurostat/databrowser/view/tec00023/default/bar?lang=en>

¹⁹ Finnish Government <https://julkaisut.valtioneuvosto.fi/bitstream/handle/>

²⁰ Publication of the Ministry of Finance (2023:69). General Government Fiscal Plan for 2024-2027. https://economy-finance.ec.europa.eu/system/files/2023-10/2024_dbp_fi_en.pdf

addressing fiscal challenges for sustained economic growth, the Ministry of Finance seeks support to design this structured process.

1.3 Project outcomes and main deliverables

The Project will **contribute towards 2 outcomes** depicted in Figure 1. It is expected that Estonia and Finland, having been closely involved in the implementation of the Project and consulted by PwC on all draft deliverables, endorse the deliverables through their internal mechanisms and follow up on the work/recommendations contained in the final deliverables.



Figure 1. Overview of Project impact and outcomes.

Project outcomes are secured by performing tasks under the deliverables reflected in Figure 2. Project deliverables and tasks Figure 2. To ensure the consistency of our approach and synergy from cross-country collaboration, we employ the same frameworks and methodologies for both countries, bearing in mind a country-specific context. Due to the similarity of the tasks of **D6** and **D9** (Final reports for Finland and Estonia respectively), we **merged** our **approach** to these deliverables **under D9**. A more detailed overview of each deliverable's objectives, timeframe, tasks and activities is provided in Chapter 4 - Overview of working arrangements

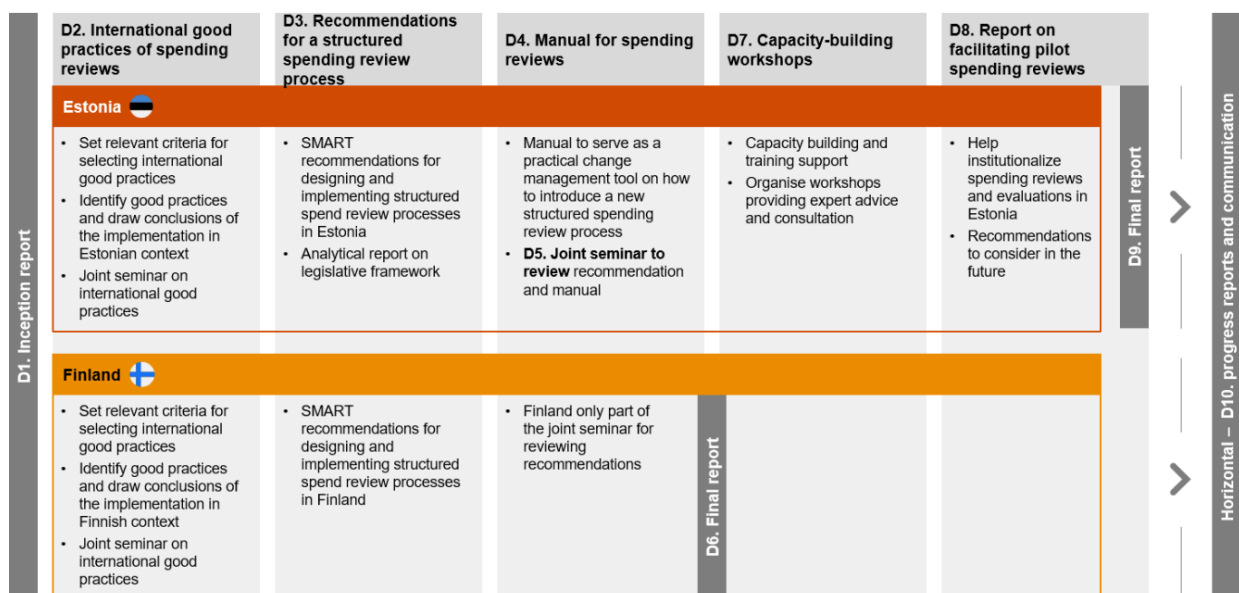


Figure 2. Project deliverables and tasks

2. Estonia as-is analysis

2.1 Overview of state budget framework and process

2.1.1 State budget framework

In Estonia, the highest authority regarding the state budget is the Parliament which is responsible for approving the state budget and making decisions related to fiscal policy. The government, led by the Prime Minister, prepares the budget. In the country's strategic planning and financial management, "Estonia 2035"²¹ ought to play a central role as the country's long-term development strategy and cross-sectoral coordination tool along with sectoral development plans. The budget framework and the different budget instruments used in the performance-based budgeting system are illustrated in Figure 3.

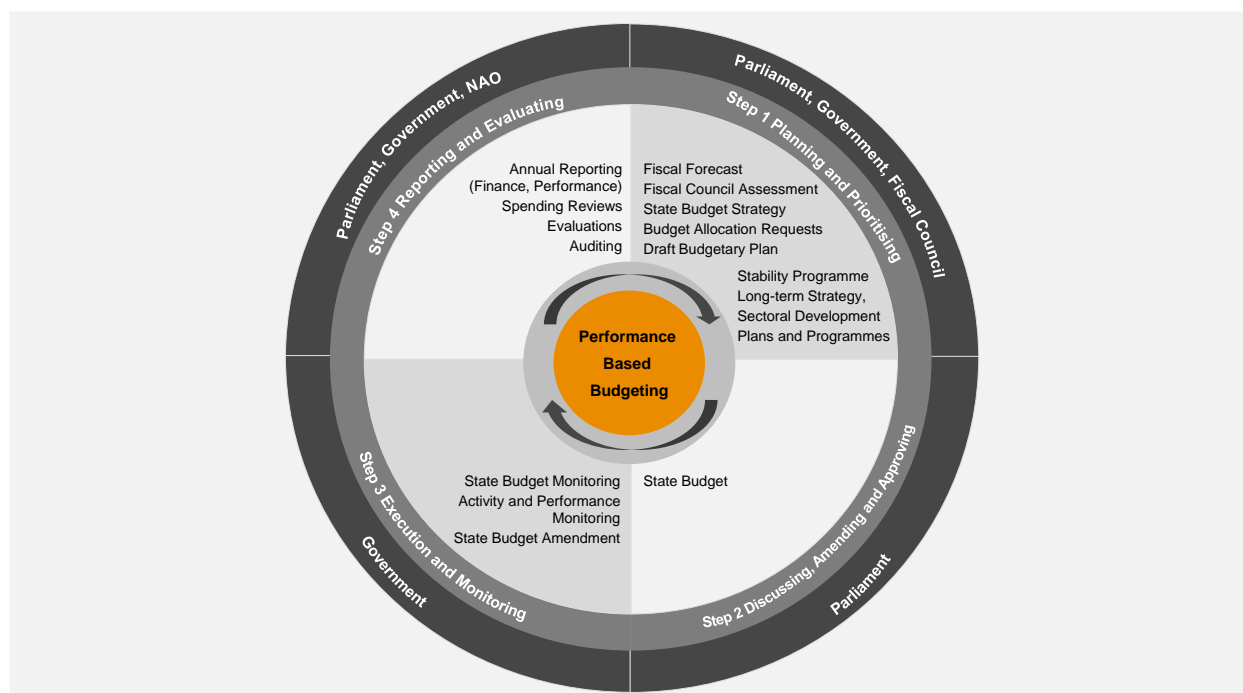


Figure 3. State Budget Framework

Since 2020, during the State Reform²², Estonia has adopted Performance-Based Budgeting (Activity-Based Budgeting specifically)²³ with the aim of achieving more effective and efficient implementation of public functions, higher quality of public services, reduction of general government expenditure and staff costs, and more flexible and less bureaucratic management of the government sector.

The budget framework consists of several requirements, instruments and documents prepared and approved by different stakeholders such as the Parliament, the Government, the National Audit Office and the Fiscal Council. Figure 3 presented above is explained as follows by process steps and instruments.

²¹ Government of Estonia (2021) [Estonia 2035](https://valitsus.ee/en/media/3926/download), last retrieved 22.11.2023 <https://valitsus.ee/en/media/3926/download>

²² Ministry of Finance Estonia (n.d) [State Reform](https://www.fin.ee/en/state-local-governments-spatial-planning/public-administration-and-personnel-policy/state-reform), last retrieved 24.11.2023 <https://www.fin.ee/en/state-local-governments-spatial-planning/public-administration-and-personnel-policy/state-reform>

²³ Ministry of Finance Estonia (n.d) [Performance Based Budgeting](https://www.fin.ee/en/public-finances-and-taxes/state-budget-and-economy/performance-based-budgeting), last retrieved 24.11.2023 <https://www.fin.ee/en/public-finances-and-taxes/state-budget-and-economy/performance-based-budgeting>

Step 1 Planning and Prioritising

Fiscal Forecast²⁴ – The objective of the macroeconomic forecast is to describe the state's economic environment together with the likely developments and to inform the public thereof. The macroeconomic forecast provides the basis for the financial forecast which describes the revenue, expenditure and investments of the general government sector together with the likely changes. The financial forecast provides the basis for the budget strategy, stability programme and draft state budget. The Ministry of Finance (hereafter MoF) publishes the macroeconomic forecast and the financial forecast on its website.

Fiscal Council Assessment²⁵ – The Fiscal Council is the advisory board formed by the Bank of Estonia Act²⁶, which assesses the state macroeconomic forecasts and the state financial forecasts and monitors compliance with the budgetary rules. The Fiscal Council shall provide an opinion regarding the macroeconomic forecast and the financial forecast within two weeks of their publication.

State Budget Strategy²⁷ – According to the State Budget Act²⁸, the state budget strategy is the basis for the compilation of the draft state budget and the state budget strategy shall be compiled for the following budgetary year and the subsequent three years.²⁹

Draft Budgetary Plan³⁰ – The state budget draft for 2024 is based on the state budget strategy 2024–2027, the Government's action programme and recommendations provided by the EC.

Budget Allocation Requests^{31 32} – During preparatory phase for the budget strategy and budget negotiations, requests are submitted by the ministries for additional funds and for reallocation of the budgetary appropriations between years of the next State Budget Strategy.

Stability Programme³³ – Compliance of the Government's policy with the requirements arising from the Stability and Growth Pact. § 23 of the State Budget Act states that the MoF shall prepare the stability programme, which complies with Council Regulation (EC) No 1466/97.

Long-term Strategy, Sectoral Development Plans and Programmes³⁴ - "Estonia 2035" plays a central role as the country's long-term (usually 7-10 years) development strategy and cross-sectoral coordination tool and is carried out mainly via sectoral development plans and programmes in the respective fields. There are currently 16 approved sectoral development plans and four under preparation.

Step 2 Discussing, Amending and Approving

State Budget³⁵ – § 115 of the Constitution establishes that the Parliament shall pass, as a law, the state budget for each year, encompassing all revenues and expenditures of the state. The Government of the Republic shall submit the draft state budget to the Parliament no later than three months before the

²⁴ Ministry of Finance Estonia (n.d) [Macroeconomic and financial forecasts](https://www.fin.ee/riigi-rahandus-ja-maksud/fiskaalpoliitika-ja-majandus/rahandusministeeriumi-majandusprognoos), last retrieved 22.11.2023

<https://www.fin.ee/riigi-rahandus-ja-maksud/fiskaalpoliitika-ja-majandus/rahandusministeeriumi-majandusprognoos>

²⁵ Fiscal Council (n.d) [Home page](https://eelarvenoukogu.ee/), last retrieved 22.11.2023 <https://eelarvenoukogu.ee/>

²⁶ Bank of Estonia Act - <https://www.riigiteataja.ee/en/eli/513042015009/consolide>

²⁷ Government of Estonia (2021) [State Budget Strategy 2022-2025 and Stability Programme 2021](https://valitsus.ee/en/news/government-approved-state-budget-strategy-2022-2025), last retrieved 22.11.2023 <https://valitsus.ee/en/news/government-approved-state-budget-strategy-2022-2025>

²⁸ State Budget Act Retrieved 22.11.2023 <https://www.riigiteataja.ee/en/eli/529122017006/consolide>

²⁹ Ministry of Finance Estonia (n.d) [State Budget and Economy](https://www.fin.ee/en/public-finances-and-taxes/state-budget-and-economy), <https://www.fin.ee/en/public-finances-and-taxes/state-budget-and-economy>

³⁰ Ministry of Finance (2023) [2024 Draft Budgetary Plan of Estonia](https://www.fin.ee/en/media/7874/download) <https://www.fin.ee/en/media/7874/download>

³¹ Ministry of Finance (2023) [Activity-based budgeting manual](https://www.fin.ee/riigi-rahandus-ja-maksud/riigieelarve-ja-eelarvestrateegia/tegevuspoliitika-ja-arengukavad/kehtivad-arengukavad), last retrieved 28.11.2023 <https://www.fin.ee/riigi-rahandus-ja-maksud/riigieelarve-ja-eelarvestrateegia/tegevuspoliitika-ja-arengukavad/kehtivad-arengukavad>

³² State Budget Act paragraph no 119, <https://www.riigiteataja.ee/akt/121122019026>

³³ Ministry of Finance Estonia (2022) [Stability Programme 2022](https://www.fin.ee/media/6206/download), last retrieved 22.11.2023 <https://www.fin.ee/media/6206/download>

³⁴ Government of Estonia (n.d) [Approved Sectoral Development Plans](https://valitsus.ee/strateegia-eeesti-2035-arengukavad-ja-planeering/arengukavad/kehtivad-arengukavad), last retrieved 22.11.2023 <https://valitsus.ee/strateegia-eeesti-2035-arengukavad-ja-planeering/arengukavad/kehtivad-arengukavad>

³⁵ Ministry of Finance (2024) [State Budget for 2024](https://fin.ee/riigi-rahandus-ja-maksud/riigieelarve-ja-eelarvestrateegia/2024-riigieelarve), last retrieved 22.11.2023 <https://fin.ee/riigi-rahandus-ja-maksud/riigieelarve-ja-eelarvestrateegia/2024-riigieelarve>

commencement of the budget year. Refer to chapter 2.1.2 for further details regarding the annual state budgeting process.

Step 3 Execution and Monitoring

State Budget Monitoring – § 75 of the State Budget Act establishes that MoF shall monitor the implementation of the state budget and provide an overview thereof to the Government of the Republic at least twice a year.³⁶ Government Regulation on State Budget Strategy and State Budget³⁷ specifies more detailed requirements and guidelines for the State Budget Monitoring under par § 17.

State Budget Amendment and Supplementary Budget³⁸ – As stated in the State Budget Act, to amend the state budget without amending the total amount of funds, the Government may initiate a draft State Budget Amendment Act not later than two months before the end of the budgetary year and a draft supplementary budget not later than three months before the end of the budgetary year. The planned funds of a ministry's administrative area budget must be based on the budget strategy, expenditure limits approved in the budget strategy, and objectives of the sector's development plans.

Step 4 Reporting and Evaluations

Annual Reporting – MoF is responsible for the Annual Report which serves as input for the preparation of the budget strategy and draft state budget. The annual accounts and lawfulness of the transactions of the state are audited by the National Audit Office (NAO). The Government submits the audited consolidated annual report to the Parliament.

Spending Reviews – Government's instrument for the effective and efficient use of public funds and to increase budgetary flexibility. See chapter 2.2.

Evaluations – The purpose of policy evaluation is a comprehensive analysis of the overall impact of policies and public sector interventions. See chapter 2.3.

Audit reports:

- **NAO**³⁹ operates as an independent state body exercising economic control (audit). NAO assesses performance on the basis of the functions assigned to the auditees by legislation, the goals and objectives set in national programmes and development plans, the principle of sound management, and the following criteria: **(i) economy**, i.e. minimising the expenses incurred for achieving the aims of the auditee; **(ii) efficiency**, i.e. the relationship between expenses and the results achieved through incurring them; **(iii) effectiveness**, i.e. the actual impact of an activity compared to the intended impact.
- **Internal Control and Internal Audit**⁴⁰ - The government of the Republic Act states in § 92¹ and § 92² that an internal control system is a comprehensive set of measures implemented in the directing of governmental authorities and state authorities administered by governmental authorities in order to achieve lawfulness and purposefulness and to ensure: (i) compliance with legislation; (ii) protection of property from damage caused by squandering, non-purposeful use, incompetent management, etc.; (iii) the purposefulness of the activities of the authorities in the performance of their duties; (iv) collection, storage and publication of truthful, updated and reliable information concerning the activities of the authorities. The head of a governmental authority or a state authority administered by a governmental authority shall implement the internal control system and organize the professional activity of an internal auditor. The task of the internal audit is to evaluate the internal control system, including economic, efficient and effective use of the resources. The MoF EE coordinates and analyses the implementation of the internal control system of authorities of executive power and the organisation of the professional activity of an internal auditor.

³⁶ State Budget Act <https://www.riigiteataja.ee/en/eli/ee/514032022001/consolide/current>

³⁷ Government Regulation on State Budget Strategy and State Budget, last retrieved 30.12.2023 <https://www.riigiteataja.ee/akt/121122019026?leiaKehtiv#para17>

³⁸ State Budget Act <https://www.riigiteataja.ee/en/eli/529122017006/consolide>

³⁹ National Audit Office Act, Retrieved 27.12.2023 <https://www.riigiteataja.ee/en/eli/530062021004/consolide>

⁴⁰ Government of the Republic Act, last retrieved 27.12.2023 <https://www.riigiteataja.ee/en/eli/505092023001/consolide#para92b1>

Estonia has several well-established budget practices that complement spending reviews, such as a **comprehensive annual budget process, a four-year medium-term expenditure framework, accrual accounting and accrual-based budgeting, and a performance-based budgeting framework, where the budget is presented at a programme level.**

2.1.2 Budgeting process

Budget procedures are put into practice in accordance with the Constitution⁴¹ and the State Budget Act⁴². Budget formulation in Estonia can be divided into two stages: the preparation of the multi-year State Budget Strategy and the preparation of

the annual budget.⁴³ The budget cycle spans the entire year, as indicated in Table 1.

Table 1. Budget planning cycle in Estonia.⁴⁴

Month	Budget planning cycle
November	MoF submits detailed instructions and timeline for the preparation of the budget strategy projects and reports of the ministries' governance areas no later than the tenth working day of November.
February	Ministries provide input for the spring economic forecast. MoF submits the maximum volumes of funding to the ministries for preparing the budget strategy.
April	MoF presents the spring economic forecast; discussions and approval of the stability programme are taking place in the Government.
June	Ministries submit the necessary data to MoF for the preparation of the budget strategy and the state budget draft. In particular, the financing plan, performance data, the programme project document and other explanations are presented, and if necessary, additional requests are signed by minister.
August	Ministries provide summer economic forecast input.
September	The Government is negotiating the budget. Ministries adjust the budget strategy project of their area of governance in accordance with the decisions of the Government and submit the revised budget strategy project of their area of governance to MoF. MoF corrects the budget strategy and the draft state budget and submits them to the Government for approval. The Government approves the budget strategy and approves the draft state budget which will be presented to the Parliament no later than three months before the beginning of the budget year.
October	The state budget draft is presented to the Parliament.
October – December	The state budget draft is processed in the Parliament.
December	The Parliament adopts the state budget as a law. The activities of the special purpose reserve are confirmed by the Government.
January	Ministers approve and publish programme documents. The minister breaks down the resources of the ministry's area of government specified in the state budget
April	Ministries submit proposals for changes to the activities of the programme if they want to make changes in the structure approved by the Budget Act. The MoF approves proposals for changes to programme activities in the appeal.

2.1.3 Budget revision instruments and their linkage with spending reviews

In August 2023, during the discussions on the new state budget, members of the Government approved a comprehensive budget review action plan. This decision includes the establishment of a political steering group that coordinates the budget revision and is chaired by the Minister of Finance, and the officer-level

⁴¹ Constitution of the Republic of Estonia (1992), last retrieved 22.11.2023 <https://www.riigiteataja.ee/akt/115052015002>

⁴² State Budget Act, last retrieved 22.11.2023 <https://www.riigiteataja.ee/en/eli/509122022002/consolide>

⁴³ Ministry of Finance Estonia (n.d) *State Budget and Economy*, last retrieved 7.11.2023 <https://www.fin.ee/en/public-finances-and-taxes/state-budget-and-economy>

⁴⁴ PwC Estonia (2023), *Analysis of the state budget strategy and state budget planning and reporting cycle*, last retrieved 28.11.2023

steering group that ensures the successful implementation of the state budget revision. The revision consists of zero-based budgeting, horizontal spending analyses and evaluation instruments. Although different approach and terminology is used, the outcome of zero-based budgeting and the horizontal analyses are both viewed as spending reviews.⁴⁵

State budget revision	Zero-based budgeting	Ministry of Economic Affairs and Communications	Administrative efficiency	} Spending reviews
			Services – grants – investments	
		Ministry of Social Affairs	Administrative efficiency	
			Services – grants – investments	
		Ministry of Finance	Administrative efficiency	
			Services – grants	
	Horizontal analyses	Investments spending review under Public Investment Management Assessment (PIMA) report		
		Permits and oversight		
	Evaluations	Evaluation of the implementation of sectoral development plans and programmes		
		Evaluation of the results and effects of measures/programmes financed from the structural funds of the European Union		

Figure 4. State budget revision⁴⁶

To elaborate, during the zero-based budgeting:

- Non-priority services are identified, the volume of which should be reduced or the provision of which should be terminated.
- Possible overlapping services that can be consolidated and optimised for capacity are identified.
- Services which exceed the target value by volume and therefore can be reduced or optimised are identified.

During the zero-based budgeting process, impact assessment of large-scale services and cost model reviews are carried out to identify opportunities for more efficient use of services and cost savings for their provision. The goals and results of the services in the performance areas are also reviewed.

The zero-based budgeting projects will initially be carried out in the Ministry of Economic Affairs and Communications, Ministry of Social Affairs and MoF government areas which cover a total of 53% of the State budget. A gradual revision of the total state budget will be carried out across all government areas.⁴⁷

Those spending reviews named as horizontal analysis (see Figure 4) analyse themes across performance areas and governance areas. The aim is to increase cost efficiency and introduce best practices across the country by consolidating the implementation of some activities or changing management models. Based on interviews with MoF the investments spending review under the PIMA report has been finished and is yet to be published and the permits and oversight spending review is in an early planning stage.

Details regarding evaluations can be found in the dedicated chapter 2.3 on page 23.

However, it is acknowledged that the ministries of Estonia have been consistently analysing their existing public services in the context of limited financial resources. For instance, the Ministry of Social Affairs has drafted a bill to make the pension system fairer by abandoning the special pension system for certain public

⁴⁵ Republic of Estonia, Government (2023) [Members of the government gave the green light to a major budget review](https://valitsus.ee/en/news/members-government-gave-green-light-major-budget-review) <https://valitsus.ee/en/news/members-government-gave-green-light-major-budget-review>

⁴⁶ Sven Kirsipuu, Deputy Secretary-General of Fiscal Policies (2023) *presentation on the Budget revision*, introduced during meeting 3.11.2023.

⁴⁷ Republic of Estonia, Government (2023) [Members of the government gave the green light to a major budget review](https://valitsus.ee/en/news/members-government-gave-green-light-major-budget-review), retrieved 30.11.2023 <https://valitsus.ee/en/news/members-government-gave-green-light-major-budget-review>

sector employees (in force). The creation of the Family Benefits Act abandoned the automatic indexation of family benefits (in force). **Therefore, policy-making also requires finding additional resources and creating efficiency in itself.**

2.2 Spending reviews

2.2.1 Background

Estonia started conducting **spending reviews in 2016** with the aim of improving budget efficiency and creating fiscal space for new spending priorities. Estonia did two pilot spending reviews in the period 2016-2018 while at the same time implementing and shaping the spending review framework, emphasising a learning-by-doing approach.⁴⁸

In September of **2019**, MoF, in the form of a formal letter, asked the ministries to propose at least one spending review proposition with a description of the problem, aim and budgetary scope. A total of **18 proposals were submitted** with the Ministry of the Interior submitting the most proposals and the Ministry of Foreign Affairs not responding. The proposed spending reviews were placed in the selection criteria matrix to assess:

- first, the significance of proposals on **the scale of impact on the state budget** (low - high) and **political interest** (low - high);
- secondly, the feasibility of proposals, which was expressed on the scale of **clarity of the goal** (clear - unclear) and the definition of the **person in charge** (designated specifically – not defined).⁴⁹

The significance and feasibility assessments of the proposals were finally combined into summary selection matrix that identified proposals that were either significant and feasible or non-significant and not feasible with remaining of the proposals falling into intermediate category.

Based on these results, the final proposal of topics for spending reviews was presented for government's approval. In addition to quantifiable selection criteria based on selection matrix, one spending review topic was proposed to ensure that the project would clearly be within the exclusive responsibility of a single line ministry (and not horizontally across several line ministries).

The first conducted spending review was a pilot review that covered around 0.3% of the state budget, where the Government investigated the use of government vehicles. **The second** spending review covered around 2.7% of the state budget.⁵¹ **The third** spending review was the consolidation of state foundation accounting services in 2020 and **the fourth** funding of museums from the state budget in 2022. **Four additional spending reviews are currently underway**, as outlined in Table 2.

4 spending reviews from the 2017-2022 period are completed and published on MoF's website⁵⁰.

⁴⁸ OECD (2019) *Spending reviews in Estonia*, Retrieved 7.11.2023

⁴⁹ Internal working materials shared by the Ministry of Finance

⁵⁰ Ministry of Finance Estonia (n.d) *Spending reviews*, Retrieved 16.11.2023 <https://www.fin.ee/riigi-rahendus-ja-maksud/riigieelarve-ja-eelarvestrateegia/tohustamiskava>

⁵¹ OECD (2019) *Spending reviews in Estonia*, Retrieved 7.11.2023

Table 2. Overview of spending reviews in Estonia.

Spending review	Year	Scope	Cross- / Single-ministerial	Responsible	Status
Procurement and management of cars by governmental authorities and state authorities administered by governmental authorities ⁵²	2017	0.3% of the state budget	Cross-ministerial	MoF	Finished
Spending review for enterprise and innovation ⁵³	2018	2.7% of the state budget	Cross-ministerial	Ministry of Economic Affairs and Communications	Finished
Consolidation of state foundation accounting services ⁵⁴	2020	Not specified	MoF, State Shared Service Centre (SSSC)	SSSC	Finished
Funding museums from the state budget ⁵⁵	2022	Not specified	Single-ministerial	Ministry of Culture	Finished
Consolidation of grant application service	N/A	N/A	N/A	SSSC	<i>De facto</i> finished (except for two implementing agencies), but not published. Implementation started.
Consolidation of document management accounting service	N/A	N/A	N/A	SSSC	Implementation in the pilot phase.
Investment spending review under the Public Investment Management Assessment (PIMA) report	TBD	TBD	Cross-ministerial	MoF	Started, but not completed and published.
Permits and oversight	TBD	TBD	Cross-ministerial	TBD	Planning phase.

Spending review 2017. As a result of the first spending review, based on previous analyses and discussions of sectoral working groups, the MoF made **six proposals** for more efficient and transparent use of the resources spent on land vehicles. Relevant **data was provided by the state's accounting and financial reports** on the maintenance costs of government agencies' land vehicles and the register-based information of the National Road Administration. The **working group consisted of five people from ministries with the most vehicles**. The analysis was based on the information provided in the state's

⁵² Ministry of Finance Estonia (2017) [Government vehicles spending review](https://www.fin.ee/riigi-rahandus-ja-maksud/riigieelarve-ja-eelarvestrateegia/tohustamiskava) Retrieved 16.11.2023

⁵³ Ministry of Finance Estonia (2018) [Spending review enterprise, innovation](https://www.fin.ee/riigi-rahandus-ja-maksud/riigieelarve-ja-eelarvestrateegia/tohustamiskava). Retrieved 16.11.2023

⁵⁴ Ministry of Finance Estonia (2020) [Consolidation of state foundation accounting services analysis](https://www.fin.ee/riigi-rahandus-ja-maksud/riigieelarve-ja-eelarvestrateegia/tohustamiskava). Retrieved 16.11.2023

⁵⁵ Ministry of Finance Estonia (2022) [Funding of museums from the state budget](https://www.fin.ee/riigi-rahandus-ja-maksud/riigieelarve-ja-eelarvestrateegia/tohustamiskava). Retrieved 16.11.2023

accounting and financial reports. Each of the proposals stated a **responsible institution for the task**, its **deadline**, **estimated savings** and an **impact assessment**.

Spending review 2018. At a **Cabinet meeting** on 16 February 2017, it was decided to conduct a spending review in the field of entrepreneurship and innovation and to submit proposals for efficiency improvement to the Government in April 2018. The preparation of the spending review was **coordinated by the Ministry of Economic Affairs and Communications and MoF** in cooperation with other ministries. The aim of the second spending review was:

- > To make the impact of support measures and activities more effective, which would have a greater positive impact on economic growth, productivity and international competitiveness.
- > Eliminate market and system failures that slow down the development of entrepreneurship and innovation and better direct the operation of support structures for entrepreneurship and innovation primarily to support economic growth.

As a result of the spending review over **172 propositions** categorised into 3 main topics for the final 8 proposals were presented.

For the 2020 spending review, plans to consolidate and increase efficiency were pre-existing and a call for spending reviews from MoF presented an option to ensure governmental involvement at the time.

Spending review 2020. At a **Cabinet meeting** on 1 August 2019, the **state reform action plan for 2019-2023 was approved**. As a result, the MoF and the **State Shared Service Centre** were tasked with preparing an analysis and an action plan for the consolidation of the accounting services of state foundations. It presented the **estimated savings** from the consolidation of accounting services and **proposed three**

possible reallocation methods, as well as a **timetable** for the consolidation of agencies.

Spending review 2022. In 2019, **in response to the formal call for spending reviews by the MoF**, the Ministry of Culture proposed a spending review topic which was then presented and agreed on at a **Cabinet meeting**. In the beginning of 2020, the **composition of the steering committee was proposed by the Ministry of Culture and confirmed by the directive of the Minister of Culture**. In addition to that, the Ministry of Culture sent out an official letter to different institutions and museums with a request to appoint members to the expert working group and focus group. The steering committee consisted of deputy secretary generals from different line ministries who have museums in their governance area. The political interest in the subject was modest and the steering committee's contribution was limited to a formal meeting at the start of the spending review where the following matters were decided:

- > Discussion and approval of the initial task.
- > Approval of the composition of the expert working group.
- > Discussion and approval of the timeline and activities.
- > Other guidelines for the work group (if any).

Despite the limited political interest, there was strong motivation and support at the ministry officials' level which kept the spending review process ongoing. The aim of the spending review was to create a transparent and sustainable museum funding system that considers the role of a modern museum in society, preserves collections belonging to the state, and motivates the museum's management to find opportunities to earn their own income.⁵⁶ The spending review analysed government expenditure on conservation and saving museums, however, its conclusions **did not propose means of reallocating or freeing up resources**, but instead **suggested allocating additional funds** towards heritage repositories and **changing the Museum Act**⁵⁷. The duration of the spending review spans over 2 years due to delays caused by the COVID-19 outbreak.

⁵⁶ Memo of Overview of Spending Review Proposals (2019) Shared by MoF

⁵⁷ Museum Act, available: <https://www.riigiteataja.ee/akt/111032023047?leiaKehtiv>

2.2.2 Organisational and operational aspects

Organisational and operational structure. The 2019 OECD Estonia spending review report described good practices for the spending review governance structure as illustrated in Figure 5 which represents as-intended. As-intended, the Government of the Republic would be the leading body in the spending review process and make decisions on starting reviews and the final decision on the results of the reviews, based on options presented by the working groups. The Government of the Republic would assign a steering that oversees the work of the working groups and discusses the recommendations that will be presented to the Government. The State Budget Department coordinates and lends its support to the spending review process and is responsible for looking into ways to improve the spending review framework. The specific role of the State Budget Department is to organise and set up working groups in coordination with the steering committees, to coordinate the submission of proposals for the preparation of spending reviews to the Government of the Republic, to coordinate and monitor the results of the reviews, and to ensure a link to the budget process. The working group conducts the actual spending review report and hands in the draft report to the steering committee to deliver to the Government of the Republic for final decision-making.⁵⁸

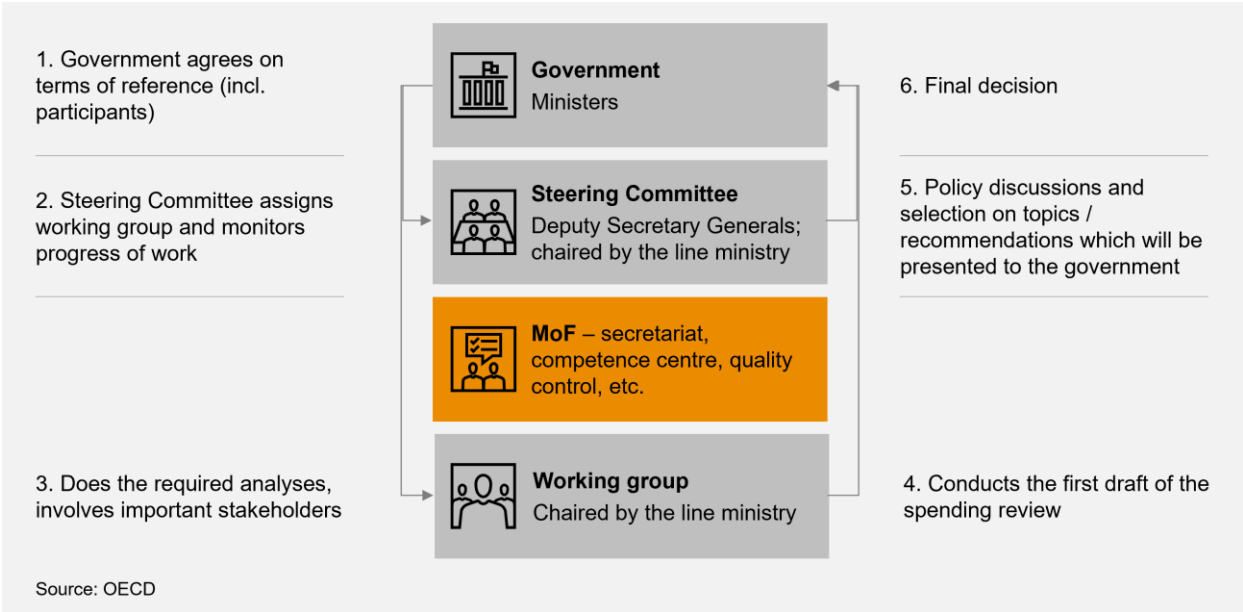


Figure 5. Spending review governance as-intended structure.

However, in practice, the governance model has remained rather an informal recommendation than a clear-cut working template to follow. The involvement of the steering committee in the museum’s spending review was limited to a single meeting in the early stage of the spending review. Support from MoF was similarly present in preparing the terms of reference and remained observant afterwards. Based on the interview with SSSC in the consolidation of state foundation accounting services spending review **the final decision-making phase was skipped** and the final decision was made on the steering committee level.

Roles and responsibilities. In Estonia, the role of State Budget Department under MoF for driving the spending review process has evolved throughout the years. No special unit for managing the spending review process has been created in the State Budget Department as of autumn 2023. When taking on reviews that only involve one line ministry, the relevant ministry leads the work and is responsible for following the mandate of the steering committee, while the MoF plays a coordinating role in the process. The roles of the Government of the Republic and MoF are regulatorily covered (See chapter 2.2.3).

Table 3. Stakeholders and their role.

Stakeholder	Role
The Government of the Republic	Does not have a formal role in the working group. Decides the conducting, deadline and the person in charge of the spending review.

⁵⁸ OECD (2019) *Spending reviews in Estonia*. Retrieved 7.11.2023

Stakeholder	Role
Ministry of Finance	Coordinates the submission of the proposal to the Government of The Republic. May form a multi-ministerial working group to prepare the proposal.
Line ministries/agencies	LM/agency leads the work within the working group and is responsible for delivering the expected results.
National Audit Office	NAO is briefed, the results are included in the Annual report.

Documentation of previous spending reviews. In Estonia, the State Budget Department prepares the terms of reference in collaboration with relevant stakeholders.⁵⁹ The State Budget Act⁶⁰ reads that a spending review must include proposed amendments with an impact assessment, responsible institutions and a deadline for the implementation of the amendment (see chapter 2.2.3 for details). Currently, no other formal requirements for a spending review exist, resulting in inconsistent documentation. Based on the mapping (see Appendix 5.2) of previous spending review documents and the good practices list presented in the 2019 OECD report the following aspects were analysed in the published spending review documents on the MoF's website (only materials published as required by law, not including additional documents shared by the Ministry of Culture, SSSC, MoF, etc.):

>	Definition of the problem
>	Background
>	Objective
>	The budgetary scope of the spending review
>	Methodology
>	Important deadlines
>	Timetable with deadlines for implementation
>	Responsible parties for implementation
>	Impact assessment
>	Governance structure
>	The approximate savings target for the overall spending review
>	The expected output of the review in the form of options

2.2.3 Legal aspects

The Parliament's objective in creating regulatory frameworks for spending review. In the Republic of Estonia, **the regulation of spending reviews** in the State Budget Act has been in effect since 1 January 2020. The Government of the Republic, upon the proposal of MoF, developed the spending review regulation with the aim of:

>	Increasing the flexibility of the state's functioning
>	Creating conditions for the efficient and effective use of public resources

Section 34² of the State Budget Act stipulates that specific proposals for more effective, efficient, and economical use of state budget funds are made through the spending review. The law was created with the intention that the Government of the Republic has the right to specify that a spending review must be

⁵⁹ OECD (2019) *Spending reviews in Estonia*. Retrieved 7.11.2023

⁶⁰ State Budget Act (2014) Retrieved 22.11.2023 <https://www.riigiteataja.ee/en/eli/529122017006/consolide>

prepared and submit proposals to the Government of the Republic for the implementation of the spending review.

According to the legislator's intention (The Parliament), the critical evaluation of government sector expenditures through the spending reviews aims to enhance sectors, free up resources for necessary investments, and identify new sources of growth. Additionally, the law was supplemented with an authorisation for the Government of the Republic to create a regulation stating that a relevant steering committee is established for the implementation of a specific spending review, guided by the directives and concept of the Government of the Republic.





In Estonia, **non-regulatory measures are also in use, including manuals, recommendations from international organisations, and materials developed by MoF.** Non-regulatory measures include, for example, the Government of the Republic's guidelines to develop a new budget concept focusing on the analysis of the budgets of government areas.

Additionally, the aforementioned (see chapter 2.1.3) **creation of non-regulatory horizontal spending reviews is underway**, analysing cross-cutting issues of result areas and government areas. The goal is to increase cost-effectiveness and implement best practices nationwide by consolidating the implementation of certain activities or changing management models. The last non-regulatory measure is the evaluation of development plans and the use of external funds.

Key Regulations of European Union Law. According to the Treaty on European Union (hereinafter referred to as the TEU), one of the main objectives of the European Union is to establish an economic and monetary union, which includes a single and stable currency (TEU Article 3(4)). To achieve this goal, the Treaty on the Functioning of the European Union (hereinafter referred to as the TFEU) includes Section VIII on "Economic and Monetary Policy."

The provisions of this section affirm the need for close coordination of member states' economic policies and state that member states treat their economic policies as a matter of common interest. The TFEU provisions on economic and monetary policy also outline criteria for member states' budgets. Specifically, under Article 126 of the TFEU, member states avoid excessive budget deficits, and the EC is tasked with monitoring the budgetary situation and the formation of public debt in member states.

Economic policy, as well as budgetary policy, is an area within the competence of member states according to the EU treaties (TFEU Article 121(1)). The European Union has exclusive competence only over the monetary policy of countries using the euro. Minimum requirements for a member state's budgetary policy are set out in Articles 121, 126 and 136 of the TFEU. Only recommendations and opinions are considered legal acts, but they are not binding (TFEU Article 288). Key regulations of European Union Law are:




	Treaty on European Union (Consolidated Version 2016)
	Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union Text with EEA relevance
	Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies
	Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States

Constitution. Estonia's Constitution (§ 115, 106, 154 and 157) outlines state budget processes. The Parliament passes the annual budget, with the Government submitting the draft three months prior. Local and state budgets are separate, and local governments can impose taxes based on law. The Parliament approves the budget and implementation reports. The National Audit Office audits financial statements and presents asset use overviews. The Auditor General reports to the Parliament by August 31.







The State Budget Act. The State Budget Act is, according to the hierarchy of legal acts, the next national legal act in Estonia, which must be considered when drafting spending reviews. The current base State

Budget Act has been in effect since 2014. According to § 104 point 11 of the Constitution of the Republic of Estonia, the State Budget Act is a constitutional law. According to the annotated edition of the Constitution of the Republic of Estonia, the state budget is an internal act because the guidelines contained therein are addressed to the executive power. A budgetary item in the state budget does not entitle one to demand a specific amount to be paid to a specific person. The right to claim and the state's financial obligation can arise either based on law (salaries of officials, pensions, subsidies) or a contract (purchase of goods and services, loan repayments).

The regulation of the spending reviews in the State Budget Act has been in effect since 1 January 2020. According to the mentioned amendment, the State Budget Act was supplemented with a new § 34² and it stipulates:

	For the efficient and effective use of public funds and increasing the flexibility of the state's functioning, the Government of the Republic may, in the planning of the state budget funds, prepare a spending review
	The spending review includes specific proposals for more effective, efficient and economical use of state budget funds
	The conditions and procedures for preparing the spending review are established by regulation

Pursuant to § 34² sentence 3 of the State Budget Act, the Government of the Republic has established Regulation No. 119, titled "Conditions and Procedure for the Preparation of the State Budget Strategy, State Budget Draft and Spending Review, as well as the Conditions and Procedure for the Transfer of State Budget Funds and the Procedure for Submitting Reports Arising from the State Budget Act" (hereinafter referred to as Regulation No. 119) on 19 December 2019. § 6 and 7 of Regulation No. 199 prescribe the rules for the preparation of the efficiency improvement plan.

	According to § 6 sentence 1 of Regulation No. 199, the Government of the Republic may decide to prepare a spending review based on § 34 ² sentence 1 of the State Budget Act. According to sentence 2, the Government of the Republic decides on the implementation of the proposed amendments in the spending review, appointing the responsible party and determining the deadline.
	§ 7 of Regulation No. 199 establishes detailed rules for the preparation of spending reviews. MoF coordinates the submission of the spending review proposal to the Government of the Republic.
	For the preparation of the spending review proposal, MoF may form an inter-ministerial working group. The Government of the Republic decides on the preparation of the spending review improvement plan, the deadline, and the responsible party.
	The spending review includes proposed amendments along with an impact assessment, responsible parties and the deadline for implementation.
	§ 15 sentence 7 of Regulation No. 199 imposes the obligation that the results report must include a summary of the main recommendations and follow-up actions of completed spending reviews and evaluations during the budget year period or a reference to them.
	The same regulation, in § 19 sentence 2, stipulates that the spending review is to be made public on the MoF's website.

2.2.4 Technological aspect

Although Estonia is internationally recognised for its advanced digital governance, no special technological practices have been developed to assist the spending review process, it is rather the overall advanced level of e-governance that facilitates the spending review process. There is no specific ICT infrastructure behind the spending review preparation process or a separate platform for publishing the results. The previous spending reviews were published on the EE MoF's Spending review page.⁶¹

Data-wise, all government agencies are equipped with common financial management and cost accounting software. SSSC provides state accountancy and financial reporting services to government agencies. SSSC also administers the central trial balance information system. Estonia has adopted activity-based costing, linked performance financial management, providing cost accounting software and reporting environment on a unified basis.⁶²

2.3 Evaluations

2.3.1 Overview

Spending review is widely seen as a tool for public policy evaluation, particularly for public expenditure analysis.⁶³ However, there are many other policy evaluation tools, such as evaluations, that are carried out alongside spending reviews and are seen as a key part of the information base for spending reviews. The purpose of evaluation in the broadest sense is to obtain an independent assessment and recommendations on the implementation of current programmes to ensure effective and high-quality implementation and good planning of future programmes.⁶⁴

More specifically, the purpose of the evaluation is to find out whether the policy, measure or activity works, under what conditions, whether it has the expected positive effect, whether the results have been achieved and the implementation has provided added value, or whether there is a need to change the activities and, if so, how. Evaluation is applied at different levels: development plan, programme, and measure (See Appendix 5.3). The main criteria that are evaluated are relevance, efficiency, effectiveness, impact, and sustainability.⁶⁵

In the Estonian context, **(i) evaluations of EU funded programmes**, **(ii) evaluations of sectoral development plans** and **(iii) regulatory impact assessment reports** may be considered as the main public policy evaluation instruments. See an overview of different types of evaluations in Table 4. In addition, internal and external audits (see also Figure 3 on page 11), or any other performance or value-for-money reports are also beneficial information sources for spending reviews.

Table 4. Overview of other policy evaluation tools

Policy evaluation tool	Coordinator of the Implementation (Responsible)	Further references
(i) Evaluation of the use of EU structural funds	Ministry of Finance	State Shared Service Centre (SSSC) website. ⁶⁶

⁶¹ Ministry of Finance Estonia (n.d) [Spending reviews](https://www.fin.ee/riigi-rahendus-ja-maksud/riigieelarve-ja-eelarvestrateegia/tohustamiskava) Retrieved 24.11.2023 <https://www.fin.ee/riigi-rahendus-ja-maksud/riigieelarve-ja-eelarvestrateegia/tohustamiskava>

⁶² Ministry of Finance Estonia (n.d) [Performance Based Budgeting](https://www.fin.ee/en/public-finances-and-taxes/state-budget-and-economy/performance-based-budgeting) <https://www.fin.ee/en/public-finances-and-taxes/state-budget-and-economy/performance-based-budgeting>

⁶³ See for example: Vandierendonck, C. (2014). Public spending reviews: Design, conduct, implementation. Brussels, Belgium: European Commission; Bova, E., Ercoli, R., Vanden Bosch, X. (eds) (2020). Spending Reviews: Some Insights from Practitioners. Workshop Proceedings, Discussion Paper 135. Brussels, Belgium: European Commission

⁶⁴ SSSC (n.d) [Evaluations, research, audits](https://www.rtk.ee/hindamine#hindamiste-tooplaan-ja-aruanded-2014-2020). Retrieved 16.11.2023 <https://www.rtk.ee/hindamine#hindamiste-tooplaan-ja-aruanded-2014-2020>

⁶⁵ SSSC (n.d) [Evaluations, research, audits](https://www.rtk.ee/hindamine#hindamiste-tooplaan-ja-aruanded-2014-2020). Retrieved 16.11.2023 <https://www.rtk.ee/hindamine#hindamiste-tooplaan-ja-aruanded-2014-2020>

⁶⁶SSSC (n.d) [Evaluation of policies and programs financed by structural funds](https://rtk.ee/toetuste-ulevaated-ja-oigusaktid/hindamised-uuringud-auditid/hindamise-kava-ja-aruanded), Retrieved 24.11.2023 <https://rtk.ee/toetuste-ulevaated-ja-oigusaktid/hindamised-uuringud-auditid/hindamise-kava-ja-aruanded>

Policy evaluation tool	Coordinator of the Implementation (Responsible)	Further references
		SSSC is a government agency under the administration of the MoF.
(ii) Evaluation of the sectoral development plans	Government Office	Riigi Teataja ⁶⁷ specifies that the implementation of the development plan is evaluated at least once, no later than three years before the end. The results of such evaluations are introduced to the Government.
(iii) Regulatory impact assessment	Ministry of Justice	List of supporting materials is available on the Ministry of Justice website. ⁶⁸ Coordinates the regulatory impact assessments and ex-post evaluation of the legislation.

(i) Evaluation of use of EU structural funds

MoF is responsible for the **evaluation of European structural funds**. EU regulation 2021/1060 of 24 June 2021 lays down common provisions on the EU Funds and states that the Member State or the managing authority shall carry out evaluations of the programmes related to one or more of the following criteria: (i) effectiveness, (ii) efficiency, (iii) relevance, (iv) coherence, and (v) Union added value, with the aim to improve the quality of the design and implementation of programmes. Evaluations may also cover other relevant criteria, such as inclusiveness, non-discrimination and visibility, and may cover more than one programme.⁶⁹ The regulation further expects that the Member State or the managing authority shall ensure the necessary procedures are set up to produce and collect the data necessary for evaluations. The Member State or the managing authority shall draw up an evaluation plan which may cover more than one programme. Estonia has executed evaluation plans since 2005 starting for the period of 2004-2006. The number of evaluations carried out by EU Multiannual Financial Framework (MFF) periods is the following:

- 21 evaluations for the period of 2007-2013;
- 32 evaluations for the period of 2014-2020;
- 36 evaluations for the period of 2021-2027 (planned).

Guidelines for evaluations of structural funds and evaluation reports can be found on the SSSC's website.⁷⁰

(ii) Evaluation of the sectoral development plans

Government Office coordinates the **evaluation of the sectoral development plans**. The implementation of the development plan of the sector should be evaluated at least once and not later than three years before the end of the period (currently most of the sectoral development plans are in place until 2030). According to the Government Office, the specific methodology for evaluating sectoral development plans is set out to be designed and completed in 2024 and the evaluations are to begin by 2025. The expected timeline aims to support and provide input to the planning of the next EU MFF 2028-2034 and sectoral development plans.

⁶⁷ Riigi Teataja paragraph no 4, <https://www.riigiteataja.ee/akt/123122019005>

⁶⁸ Ministry of Justice (n.d) *Impact analysis of legislative acts* Retrieved 23.11.2023 <https://www.just.ee/oigusloome-arendamine/hea-oigusloome-ja-normitehnika/oigustloovate-aktide-mojude-hindamine>

⁶⁹ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R1060&qid=1702631987071>

⁷⁰ SSSC (n.d) *Evaluation reports and recommendations* (n.d) <https://www.rtk.ee/toetuste-ulevaated-ja-oigusaktid/hindamised-uuringud-auditid/hindamissoovitused>

The impact assessment methodology⁷¹ is presently used while preparing the sectoral development plans, additional associated supporting tools and materials which are published on Government Office website⁷².

(iii) Regulatory impact assessment

The Ministry of Justice is responsible for the development of the **regulatory impact assessment** (RIA) system. It is an important element of an evidence-based approach to policy-making. Government Regulation⁷³ in Estonia regulates that impacts and effects must be assessed for all draft laws, strategic development plans and Estonian positions on approved important matters. All such impact assessments must be based on the impact assessment methodology by the Government. When drafting a legislative proposal, each ministerial department must assess the following impact areas during the development of the draft:

>	Social impact, including demographic effects
>	Impact on national security and foreign relations
>	Economic impact
>	Impact on the living and natural environment
>	Impact on regional development
>	Impact on the organisation of state institutions and local government
>	Other direct or indirect effects

During the preparation of the draft, the process of impact assessment must be continued, and it must be decided whether it is necessary to carry out a post-impact assessment after the draft becomes law. Post-impact evaluation is necessary to see if the change in the law fulfils its purpose.⁷⁴

2.3.2 The use of evaluations

Evaluations can be organised at all stages of the design and implementation of public sector policies:

- A broader ex-ante evaluation can be prepared during **the preparation** of the policy measure, considering the previous experiences of similar policy measures and interventions.
- **During** the implementation of the policy measure, the current implementation and preliminary results of the measure or intervention can be evaluated.
- **After** the policy measure or intervention has been fully implemented, the effectiveness, impact and cost-effectiveness of the intervention can be evaluated.

Evaluations may be carried out as ex-ante, mid-term or ex-post. In association with the state budget process and spending reviews, **mostly ex-post evaluations** (also known as retrospective evaluations) are considered as the evaluation tool to be integrated with spending reviews and budgeting process.




⁷¹ Government Office (n.d) <https://www.riigikantselei.ee/media/1036/download>

⁷² Government Office (n.d) <https://www.riigikantselei.ee/valitsuse-too-planeerimine-ja-korraldamine/mojude-hindamine>

⁷³ Riigi Teataja, <https://www.riigiteataja.ee/akt/119012011004?leiaKehtiv>

⁷⁴ Ministry of Justice (n.d) *Impact analysis of legislative acts* Retrieved 23.11.2023 <https://www.just.ee/oigusloome-arendamine/hea-oigusloome-ja-normitehnika/oigustloovate-aktide-mojude-hindamine>

The regulation of policy evaluations is based on the following legislation:

	Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy. Available in the Official Journal of the European Union. ⁷⁵
	Regulation (EU) No. 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006. Available in the Official Journal of the European Union. ⁷⁶
	Regulation No. 10 of the Government of the Republic dated 13.01.2011 "Regulations of the Government of the Republic". Available on the Riigi Teataja website. ⁷⁷
	Regulation No. 117 of the Government of the Republic of 19.12.2019 "Procedure for the preparation, implementation, reporting, evaluation and modification of the sectoral development plan and programme". Available on the Riigi Teataja website. ⁷⁸
	Regulation No. 180 of the Government of the Republic of 22.12.2011 "Rules for Good Legislative Practice and Legislative Drafting". Available on the Riigi Teataja website. ⁷⁹
	On 29.04.2021, the Government of the Republic established the "Impact Assessment Methodology" by decision. Available on the Government Office website. ⁸⁰

All these aforementioned types of **evaluations serve as valuable information bases for spending reviews**. These information sources should assist reviewers greatly in applying the effectiveness and efficiency criteria to the **search for savings options**.

2.3.3 Differentiating spending reviews from evaluations

The aim of spending reviews is to identify explicit savings options. This is something that evaluations may but do not necessarily do. Therefore, both evaluations and spending reviews are tools for public policy analysis, but evaluations do not per se constitute spending reviews.⁸¹ The purposes of **spending reviews are narrower** than those of an evaluation of public policy, as spending reviews are completed within a short period of time and do not involve a policy evaluation, although they may draw on the results of

There are currently no regulation, requirements, and practices for **integration** of spending reviews and evaluations.

⁷⁵ Official Journal of the European Union, <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32021R1060>

⁷⁶ Official Journal of the European Union, <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32013R1303>

⁷⁷ Riigi Teataja, <https://www.riigiteataja.ee/akt/129122011233?leiaKehtiv>

⁷⁸ Riigi Teataja, <https://www.riigiteataja.ee/akt/123122019005>

⁷⁹ Riigi Teataja, <https://www.riigiteataja.ee/en/eli/508012015003/consolide>

⁸⁰ The Government Office *Impact assessment*, Retrieved 30.11.2023 <https://www.riigikantslei.ee/valitsuse-teeplaneerimen-ja-korraldamine/mojude-hindamine>

⁸¹ Robinson, M. (2018). The Role of Evaluation in Spending Review. Canadian Journal of Program Evaluation, <https://utpjournals.press/doi/pdf/10.3138/cjpe.43177>

evaluations⁸² which already exist. **Policy evaluation is fundamentally a broader** and more general policy-supporting instrument where socio-scientific research methods are used. The purpose of the spending review is to analyse the efficiency and appropriateness of already budgeted funds in the context of existing policies, aiming to create fiscal space and reduce unnecessary expenditures.

Although evaluations are a potentially useful tool for spending review input, the use of previous evaluations in the finalised spending reviews in Estonia is unclear, with only one spending review clearly referencing evaluations as a source of input.

OECD considers integrating evaluations within spending reviews highly important in helping to inform decision-making and build a culture of evidence-based policymaking.⁸³ However, other countries have also struggled with integrating evaluations into the spending review process. It stems from the different aims of spending reviews and other policy evaluations. Evaluation systems are primarily focused on management or policy improvement, while at the same time, the explicit objective of spending reviews is to assess value-for-money and to provide advice for those who need to decide whether to cut (or increase) the budgets of specific programs or agencies.⁸⁴

A clear difference between spending reviews and evaluations must be outlined to avoid overlap. The differences between evaluation and spending review are illustrated in Table 5.

Table 5. Comparison between evaluation and spending review.

	Evaluation	Spending review
Scope	Deep analysis of a public policy/service, including across performance areas.	Focus on the budget/expenditure: performance area, programme and agency. Mostly across performance areas.
Initiated by	MoF, policymaker.	MoF, the Government of the Republic, line ministries.
Aim	To improve the quality of a policy/service. Reducing budgetary expenditure is not a separate goal, although it can be a criterion.	A specific goal is agreed upon, e.g. greater effectiveness or efficiency of policies, and cost savings.
Timeframe	Varies, impact on the budget is medium/long-term.	Varies, spending reviews must provide input for the country's budget strategy talks and support the implementation of the government's priorities. ⁸⁵
Duration	6-14 months (+tender).	No determined duration.
Methodology	Quantitative and qualitative analyses may require an additional data search. Usually ordered as a tender from an outside provider.	Based on available data/evaluation results. Additional analyses made. Emphasis on agreeing on changes. Political interest and support are important.

Table 5 relies on the information provided by MoF and the 2019 OECD report, subsequently adjusted to align with the data collected in Chapter 2.2.

2.4 Key challenges and conclusions

Key challenges and conclusions are structured in a process-driven focus covering all the key phases of a spending review from the topic selection to implementation. This life-cycle-centred approach allows a comprehensive understanding of issues and potential development areas for designing TO-BE solutions in the later phase of this project.

⁸² OECD (2019) [Spending reviews in Estonia](#).

⁸³ OECD (2019) [Spending reviews in Estonia](#).

⁸⁴ Robinson, M. (2018). The Role of Evaluation in Spending Review. Canadian Journal of Program Evaluation, <https://utpjournals.press/doi/pdf/10.3138/cjpe.43177>

⁸⁵ Letter by the Ministry of Finance, calls for proposals for spending reviews.



Topic selection

- Although over the years the drafting process of spending reviews has been regulated to some extent by laws and the scope and number of spending reviews have grown, the use cases and procedural understanding of the instrument heavily varies among the officials in Estonia.
- Initiative for conducting previous spending reviews has come from MoF. Initial two pilot spending reviews served as pilots whereas in 2019 MoF, in the form of a formal letter, called for all of the line ministries to propose topics for spending reviews. The subsequently proposed 18 spending reviews were evaluated using a selection criteria matrix.
- Previous spending reviews have not been overly ambitious in their budgetary scope.
- Spending review is an instrument that operates alongside other tools and procedures intended to increase the efficiency and effectiveness of public expenditure such as performance-based budgeting and evaluations. It is currently unclear which initiatives should be labelled as spending review and which not as there are many other similar in-house or horizontal initiatives that also focus on increasing efficiency. The criteria for choosing suitable spending review topics and for preferring spending reviews to other tools are unclear.
- Estonia's 2020 spending review regulations prioritise flexibility and efficient resource use. Collaborative efforts aim to enhance public spending effectiveness, emphasising critical evaluations for sector improvement and growth. The 2023 objectives underscore administrative efficiency, innovation and strategic investment planning. Ministries, within financial constraints, have proactively reformed services. Estonia employs non-regulatory strategies like steering committees and guidelines, consolidating activities for nationwide best practice implementation. Overall, Estonia's approach reflects a commitment to continuous improvement and cost-effective public service delivery.



Governance model

- The State Budget Act in Estonia, effective since 2014, is constitutionally significant. It guides spending reviews, treating state budget items as internal directives for the executive power. Claims arise from laws or contracts. Since 1 January 2020, a §34² amendment empowers the Government to propose efficient use of funds through spending reviews, with procedures set by regulation. Regulation No. 119 (19 December 2019) governs Estonia's State Budget processes, including spending reviews and public disclosure on the Ministry of Finance's website. However, the roles and responsibilities of the multiple stakeholders are not clearly defined, resulting in inconsistent deployment of the governance model.
- After the publication of the OECD Spending Reviews in Estonia report in 2019 efforts from MoF were made to deploy the governance model in the funding of museums spending review 2020-2022. However, the role of the steering committee and MoF remained modest after the early stages of the process. In conclusion, formally the processes were present, in reality, the continuous political interest of all parties is necessary throughout the process.



Analysis

- While evaluations can be beneficial for spending review input, their utilization in finalised spending reviews in Estonia remains unclear. Only one spending review has explicitly used them as a basis for analysis, underscoring the absence of regulations, requirements, and practices for guiding the integration of spending reviews and evaluations.
- Best practices are shared with the working groups by the MoF, but formal guidelines/templates are missing.



Results, decision, publication

- Decisions have not always been made at the government level as illustrated by the consolidation of state foundation service spending review where the final decision was made at the steering committee level.
- Not all finished spending reviews have been made publicly available as illustrated by the consolidation of grant application service spending review which is *de facto* finished.
- Among the published spending reviews not all present proposals with an impact assessment, responsible parties and deadlines as outlined by law.
- Estonia has undertaken comprehensive evaluations of structural funds, covering the periods 2014-2020 and 2021-2027, reflecting a commitment to assess and optimize the utilization of these funds.



Implementation

- Unlike evaluations, there is no **regulation** regarding implementation of spending reviews. The current process relies on the continuous interest of parties in the implementation process.

3. Finland as-is analysis

3.1 Budgeting process overview

The Budgeting process is implemented in accordance with the Constitution of Finland (731/1999), the State Budget Act (423/1988) and the State Budget Degree (1243/1992). The Constitution defines the form and the structure of the annual budget as well as the roles and responsibilities of different stakeholders while the aforementioned legislation provides more details about the budget process and contents of the budget. The Constitution states that the Parliament decides on the State budget for one budgetary year (January – December) at a time, making the Parliament the highest decision-making authority for the use of central government resources. The responsibility of preparing the State budget is assigned to the Government, which must submit its proposal concerning the State budget to the Parliament well in advance of the next budgetary year.

In practice, the budget cycle spans the entire year, as indicated in Figure 6. The preparation of the budget begins in early spring with draft budgets made by the ministries and government agencies. Mid-spring, the FI MoF prepares a general government fiscal plan which includes decisions made on spending limits, i.e. upper limit of budget expenditures for a parliamentary term, that is approved by the Government. The plan serves as the basis for preparing the Budget proposal, which must be formulated within spending limits parameters. During the summer, the FI MoF prepares the budget proposal based on the reviewed and negotiated proposals made by the line ministries and government agencies. The consolidated Budget proposal undergoes final reviews and approval by the Government in a dedicated budget session in early fall. The Budget is submitted to the Parliament for consideration at the beginning of the autumn session and approved in a plenary session of the Parliament in December. Supplementary budgets are occasionally proposed and adopted when necessary (e.g. due to accrual data impacting estimated appropriations or unexpected and unforeseen events such as the COVID-19 pandemic), and prepared and considered much in the same way as the Budget itself.

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	
Actors	Line ministries			Ministry of Finance					Government	Parliament			
Process stage	Preparation of draft budgets by ministries and government agencies					Budget proposals of the line ministries and government agencies reviewed and negotiated by MoF			Budget proposal reviewed by the Government	Budget proposal reviewed by the Parliament			
Tasks	The ministries prepare spending proposals for MoF	General Government Fiscal Plan and Spending Limits decision prepared by MoF and approved by the Government		MoF receives draft budgets from each branch of the government	Consideration by public servants in the MoF		MoF holds budget session	MoF opinion published	Government holds the budget session	Budget proposal is reviewed by the Finance Committee of the Parliament	Budget is approved by the Parliament		
Outputs	Spending limits for the next four years								Supplementary budget proposals				

Figure 6. Finland's annual budget cycle

3.2 Spending reviews

3.2.1 Overview of previous spending review efforts

In the spring of 2011, the Prime Minister's Office published a **memo on spending reviews**.⁸⁶ It included an overview of the principles and implementation of spending review, with examples from other OECD countries. The goal was to identify potential efficiency improvements and cost-saving measures to enhance

⁸⁶https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/79364/R1111_Menokartoitus_net.pdf?sequence=1&isAllowed=y

the use of public resources. Each line ministry prepared an inventory of their sector's expenditures and operational structures during the review. The memo outlined potential savings targets and a preliminary assessment of cost implications for the public economy.

Nevertheless, it became evident that a more comprehensive, wide-ranging impact assessment was needed for the selected targets and a more detailed examination of the budgetary impacts was required before a potential implementation. Particularly, the budget impact estimates for many proposed saving measures could not be calculated due to limited time and resources allocated to the spending review effort.⁸⁷

Furthermore, as stated in the **2015 OECD report**, Finland had not traditionally used spending reviews as a tool of strategic agility, nor had it had any meaningful experience with performance-based budgeting. Insufficient institutional arrangements, poor cooperation between the FI MoF and line ministries, reluctance to share funding outcomes, and lack of impact assessment data were seen to hinder the full use of spending reviews.⁸⁸

2015 OECD report highlights key challenges associated with governance and data quality.

According to the 2015 OECD report, Finland has challenges with resource flexibility in addressing new priorities from a government-wide perspective. This is seen in difficulties with institutional reallocation, civil servant career mobility, rapid resource allocation for one-off initiatives, and differences in work cultures across ministries. In addition, Finland's approach to reprioritisation of resources is more rigid and less frequent compared to other countries. This is due to practices concerning Finland's Government Programmes. The Programme outlines the strategic priorities of a new government for its term. The Programme is not typically modified during the life of the government and prioritisations made at the beginning tend to remain fixed for the whole government term. If new priorities emerge, separate decisions may be made without altering the initial Programme. Thus, the OECD recommended Finland to consider **using strategic spending reviews to allow for the reprioritisation of financial resources during the government's mandate to strategically support emerging priorities.**⁸⁹

The Parliament's Audit Committee has recommended to conduct spending reviews in 2014⁹⁰. After this, the **first spending review was conducted in 2014-2015**, and since then, a total of 4 spending reviews have been published: **spring 2015**⁹¹, **spring 2016**⁹², **winter 2019**⁹³ and **spring 2023**⁹⁴.

The first spending reviews from **2015, 2016 and 2019** are of a descriptive nature. They follow an identical structure, containing a description of key public expenditure items: a description of the benefits, services and functions that are financed with the public funds; their financing mechanism; operational impacts from the perspective of research and studies. These spending reviews were structured using the same set of **topics** (Figure 7).

⁸⁷https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/79364/R1111_Menokartoitus_net.pdf?sequence=1&isAllowed=y

⁸⁸ OECD (2015), *OECD Public Governance Reviews: Estonia and Finland: Fostering Strategic Capacity across Governments and Digital Services across Borders*, OECD Public Governance Reviews, OECD Publishing, Paris, <https://doi.org/10.1787/9789264229334-en>.

⁸⁹ OECD (2015), *OECD Public Governance Reviews: Estonia and Finland: Fostering Strategic Capacity across Governments and Digital Services across Borders*, OECD Public Governance Reviews, OECD Publishing, Paris, <https://doi.org/10.1787/9789264229334-en>, p. 180-181

⁹⁰ https://www.eduskunta.fi/FI/vaski/Mietinto/Documents/trvm_10+2014.pdf

⁹¹ Finland's 2015 Spending Review, <https://vm.fi/julkaisu?pubid=5302>

⁹² Finland's 2016 Spending Review, <https://vm.fi/julkaisu?pubid=12401>

⁹³ Finland's 2019 Spending Review, <https://julkaisut.valtioneuvosto.fi/handle/10024/161564>

⁹⁴ Finland's 2023 Spending Review, <https://julkaisut.valtioneuvosto.fi/handle/10024/164695>

Early childhood education, education and research	Sports, culture and youth work	Supporting municipalities and non-profit activities	Healthcare
Social services and benefits	Business and transportation	Environmental and nature conservation	Housing construction and housing support
Public order and safety	Military defense and crisis management	Foreign affairs and general public administration	Tax incentives

Figure 7. Topics of 2015, 2016 and 2019 spending reviews


The 2023 spending and structural review differs significantly from previous ones in terms of its approach and overall objectives. The primary focus was on identifying measures to bolster public finances, with less emphasis on outlining publicly funded benefits, services and functions. This shift signifies a strategic evolution in spending reviews' approach and objectives, moving from mere descriptions to a more action-oriented framework.

First spending reviews focused on the **factual description** of the most relevant public expenditure items, while the most recent spending review (**2023**) focuses on **concrete measures** to strengthen public finances.

In the 2023 review, it is stated that Finland aims to build an approach for regular expenditure and structural review processes in the future. The underlying reason comes from recent recommendations made by international organisations. In 2022, both the OECD⁹⁵ and the International Monetary Fund (IMF) have recommended regular spending reviews to Finland.⁹⁶ Regular spending

reviews offer a systematic method for evaluating government expenditures, facilitating long-term planning, identifying inefficiencies, and promoting informed, sustainable and transparent fiscal management.

During the **2023 Spending Review** process, potential topics for further analysis for future spending review exercises were identified. These topics included the following:

	<ul style="list-style-type: none"> > Analysis of the financing of wellbeing services counties. 	<ul style="list-style-type: none"> > A more detailed analysis and impact assessment of a comprehensive reform of the work capacity process on employment and public finances.
	<ul style="list-style-type: none"> > A more detailed analysis of public procurement and improving the knowledge base on public procurement. 	<ul style="list-style-type: none"> > Further assessment of the effectiveness of the funds allocated to nature conservation.
	<ul style="list-style-type: none"> > Analysis of models for the implementation and financing of public sector ICT investments. 	<ul style="list-style-type: none"> > Further review of the effectiveness of discretionary government grants.

3.2.2 SMART analysis and key findings

The previous spending review efforts were analysed following the SMART framework depicted in Table 6. We have customised the SMART framework by creating a set of criteria for assessing the spending reviews to identify the capabilities already present in the Beneficiaries and the missing elements.

Table 6. Customised SMART framework for spending review assessment.

Specific	How specific was the scope of the spending review? How specific was the objective(s) of the previous spending review effort? Did the framework for the spending review outline the targets to be achieved, the scope of the review, the process, roles and responsibilities, the implementation approach, as well as the outputs to be delivered?
Measurable	Did the spending review effort contain quantifiable metrics to assess the progress and impact of programmes and policies in achieving their objectives? Did the spending review include efficiency or cost-effectiveness analyses to determine whether similar outcomes could be achieved with fewer inputs or through alternative government programmes/alternatives?
Achievable	To what extent were the objectives of the spending review achieved?

⁹⁵ OECD <https://www.oecd-ilibrary.org/sites/1bccfc5f-en/index.html?itemId=/content/component/1bccfc5f-en>;

⁹⁶ IMF <https://www.imf.org/en/News/Articles/2022/11/16/mcs111722-finland-staff-concluding-statement-of-the-2022-article-iv-mission>

Relevant	Did the spending review include the analysis of spending activities in alignment with government policy priorities at the time? To what extent the government considered the results of a spending review or implemented the proposed policy options /savings?
Time-bound	At what stage of Medium-Term budgeting or annual budgeting processes did the spending review occur? Were the results of the spending review communicated in a timely manner?

Spending reviews from 2015, 2016 and 2019. Key findings on the spending review content and scope are the following:







	The three spending reviews in question did not include all public finances or state budget expenditures in the scope of the spending reviews. The focus was rather on “ <i>the largest, most significant and interesting</i> ” sectors of public finances” (Figure 7). ⁹⁷ These sectors are described in a neutral, general tone, thus, only giving overviews of the spending in these sectors.
	Pension schemes and debt management were excluded from the reviews. Additionally, central government administrative expenses are only partially covered. Mainly, the operating expenses of the defence forces and police are included as their funding largely relies on operating expenses.
	Local government finances (finances of municipalities) were included in the scope of the reviews, but they were not covered in their entirety. Only those tasks in which the State participates in financing were included in the reviews.
	The reviews incorporated an analysis of key tax expenditures, which are deviations from the standard tax structure, designed for the purpose of support in tax legislation. These include tax exemptions, deductions and lower tax rates. Their inclusion in the reviews was justified as they were compared to actual expenditures, highlighting their role in supporting specific beneficiary groups or activities.
	The 2019 Spending Review: The overview in financial subsections in environmental and nature conservation was limited in its assessments. The review briefly described the EU support schemes based on the long-term budget (2014-2020). It did not estimate support grants based on the next EU long-term budget (2021-2027).
	Spending Review 2019 included some additional analysis that was not covered in previous spending review efforts. The additional analysis concerned tax expenditures for industry and business, as well as reduced property tax rates for standard residential buildings.

Table 7. SMART analysis for 2015, 2016 and 2019 spending reviews.

Specific / Measurable/ Achievable	The spending reviews lack concrete objectives, cost-effectiveness analysis and targets, offering only descriptions of public services financing mechanisms. These spending reviews (except for the 2016 Spending Review) were prepared prior to the start of new parliamentary terms with the intention to support decision-making. Hence, given the timing and purpose of these reviews, measurable targets or objectives were not something one would expect to find in those. As a result, there were no quantifiable metrics for assessing progress and impact. The spending reviews lacked suggestions for spending reallocation, cuts or programme eliminations. This lack of strategic recommendations limits their utility in guiding fiscal decisions and optimising resource allocation.
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⁹⁷ See, for example, Finland’s 2019 Spending Review pp. 3.
<https://vm.fi/documents/10623/12045794/Menokartoitus+2019.pdf/c8de89d1-4a27-1473-be35-c6fa71778b7a/Menokartoitus+2019.pdf?version=1.0&t=1558337814000>

	Note: The 2015 Spending Review included the provisioning of short recommendations and overlapping measures which were not published. ⁹⁸
Relevant	The 2016 Spending Review included a brief analysis of spending activities in alignment with the government's policy priorities of that time. Notably, it contained the analysis of alignment with 2016 Prime Minister Sipilä's Government Programme. However, spending reviews from 2015 and 2019 did not include this type of analysis. These reviews were intended to support decision making at the beginning of a new parliamentary term. Due to this reason, the analysis of the spending activities alignment with government priorities was not relevant as the composition and priorities of a new government were still unknown at the time.
Time-bound	All three spending reviews were completed in the springtime: the 2015 Spending Review was conducted from June 2014 to April 2015, the 2016 Spending Review was conducted from March to June 2016 and the 2019 Spending Review was conducted in the winter and spring of 2019. This means that all three reviews were completed in time for the preliminary stages of the annual budgeting process to support financial policymaking.

Spending review 2023. The primary objective of the latest spending review was fiscal consolidation (identifying saving measures). This approach provides more comprehensive options for strengthening public finances and supporting policymaking than the suggestions in the Outlook review by Officials at the FI MoF (December 2022)⁹⁹.

The focus of the 2023 Spending Review was on the whole public finances, including local government (municipalities and wellbeing services counties) and social security funds. Public spending was examined while also acknowledging the possible constraints the State faces while directing some sector-specific finances. Local self-government principle restricts the State's possibilities to steer the financials of local governments. Spending of government agencies and state institutions was examined in separate chapters while a particular chapter examined public spending through the 6 following themes:

Social security benefits	Health and social services, and finances of wellbeing services counties	Education, learning, culture and sport
Agriculture and forestry, environment, and nature conservation	Public order and security, national defence and Foreign Service	Business, transport, and housing and construction

As part of the Spending Review 2023 preparation, written statements were asked from number of **research institutions and other stakeholders**¹⁰⁰. Examples of the stakeholders, that provided statements, are outlined below.

<ul style="list-style-type: none"> ➤ Finnish Competition and Consumer Authority (Kilpailu- ja kuluttajavirasto) 	<ul style="list-style-type: none"> ➤ Research Institute of the Finnish Economy ETLA (Elinkeinoelämän tutkimuslaitos)
<ul style="list-style-type: none"> ➤ VATT Institute for Economic Research 	<ul style="list-style-type: none"> ➤ The Labour Institute for Economic Research (Työn ja talouden tutkimus LABORE)
<ul style="list-style-type: none"> ➤ Finnish Institute for health and welfare (THL) 	<ul style="list-style-type: none"> ➤ Technical Research Centre of Finland VTT (Teknologian tutkimuskeskus VTT Oy)
<ul style="list-style-type: none"> ➤ Social Insurance Institution KELA (Kansaneläkelaitos) 	<ul style="list-style-type: none"> ➤ Finnish Centre of Excellence in Tax Systems Research FIT (Verotutkimuksen huippuyksikkö)
<ul style="list-style-type: none"> ➤ Natural Resources Institute Finland (Luonnonvarakeskus Luke) 	<ul style="list-style-type: none"> ➤ Finnish Institute of Occupational Health (Työterveyslaitos)

The contribution of the stakeholders was in the form of ideas and opinions rather than suggesting saving measures. It is worth noting that the request for the statements was sent to other stakeholders as well but some did not provide a statement (e.g. Economic Policy Council, VTV and other organisations).

⁹⁸ Interviews with Finnish stakeholders (see 5.3 Stakeholder meetings for more information).

⁹⁹ https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/164480/VM_2022_77.pdf?sequence=1&isAllowed=y

¹⁰⁰ See <https://vm.fi/hanke?tunnus=VM126:00/2022>

In general, the Spending Review 2023 can be summarised as follows:

Table 8. SMART analysis for the Spending Review 2023.

Specific	The 2023 Spending Review exhibited a well-defined scope and objectives to be achieved as well as outlined the description of the process of conducting the review. Considering the need to improve general government finances by at least EUR 9 billion over the next two parliamentary terms (as of December 2022), the Review's objectives were 1) to help identify purposes for which public funds were used; 2) to offer alternative measures that could improve public finances. The Review also contained a description of the core principles that were followed while analysing the different spending options.
Measurable	The 2023 Spending Review incorporated quantifiable metrics to assess the progress and impact of policies. The Review included a cost-efficiency analysis component to determine spending alternatives. For example, the Spending Review contained an analysis and options to strengthen public finances in the following areas: government agencies' operating expenditure, index-linked public expenditure, discretionary government grants, public procurement and good budgeting practices.
Achievable	<p>Key opportunities for improving general government finances were identified for all themes. Specific measures to strengthen public finances were identified for all the sectors included in the scope of the review, for example:</p> <p>In Education, culture and sport: EUR 100-500 million of strategic savings concerning higher education and EUR 150-200 million of savings for expanding the fee base of early childhood education.</p> <p>In Public order and security: EUR 100 million of efficiency savings concerning a reform of the reception of refugees and asylum seekers.</p> <p>In Health and social services: almost EUR 300 savings per year concerning the repeal of the provision on the minimum staffing level of sheltered housing units and moderately increasing customer fees for health and social services.</p> <p>In Social security benefits: over EUR 400 million of strategic savings concerning a reform of the general housing allowance.</p> <p>In agriculture and forestry, environment and nature conservation: estimated EUR 200 million savings in 2030 for reducing nationally funded aid for agriculture and horticulture.</p> <p>In Business, transport and housing: EUR 100-300 million savings by delaying new road, rail and waterway projects.</p>
Relevant	The 2023 Spending Review's goal was to provide wide range of measures to improve public finances to provide a new government with options to choose from based on their priorities. The review included relevant assessments of upcoming trends and societal changes that will affect public finance policymaking, ensuring a forward-looking perspective.
Time-bound	Conducted from October 2022 to March 2023 and published in March 2023, the Spending Review 2023 adhered to a time-bound schedule. This allowed for its seamless integration into the early stages of the following fiscal year's budget preparation, aligning with the established practice of previous spending reviews.

3.2.3 As-is analysis

Operational and organisational aspects. Spending reviews have been conducted in Finland on an ad-hoc basis. The OECD Public Governance Review (2015) showed that "*Finland has not traditionally used spending reviews, nor does it have any meaningful experience with performance-based budgeting*".¹⁰¹

¹⁰¹ OECD (2015), OECD Public Governance Reviews: Estonia and Finland: Fostering Strategic Capacity across Governments and Digital Services across Borders, OECD Public Governance Reviews, OECD Publishing, Paris. [OECD+Public+Governance+Reviews+Estonia+and+Finland.pdf \(vm.fi\)](#) P. 175.

A significant shift of the latest spending review towards an analytical approach that facilitates evidence-based policy decision-making compared to the previous efforts (2015, 2016 and 2019) indicates that **there is no standardised approach to spending reviews yet, rather initial attempts to establish one**. In particular, there are no clearly defined processes, associated performance indicators, comprehensive organisational structure with explicit roles and responsibilities over the process, etc.

Spending reviews, that have been conducted to date, have no legal basis or provisions and were initiated/coordinated by the FI MoF through appointing a working group, led by the Budget Department. Additionally, there is a certain degree of cooperation between the Budget Department and the line ministries via sectoral persons. Although this cooperation is not formalised, it contributes to the exchange of ideas.¹⁰²

Notwithstanding the cost efficiency of the spending reviews so far, the Spending Review 2023 required extensive resources from the FI MoF and could benefit content-wise from additional time allocation as the set scope for review was broad. The FI MoF has a substantial knowledge base of line ministries' spending but is limited in time.¹⁰² Considering that the Budget Department of the FI MoF is expected to keep a leading role in the future regular spending review process¹⁰², **the MoF's workload** is one of the **key challenges** to be solved.

The preparation of the Spending Review 2015 involved **cooperation with line ministries** in the form of filling in the data on the use of the state budget, which took a lot of time effort for the ministries. The latest review (2023) included written statements from research institutions and other stakeholders. The collaboration with the line ministries, which have a deeper knowledge of their public spending initiatives, was in the form of interviews with ministries' Permanent Secretaries but they did not provide data or information as in 2015.¹⁰²

The **challenge is building trust in the spending review process and overcoming the unwillingness to reallocate spending** from less profitable/impactful initiatives to their more profitable alternatives across line ministries. The line ministries might have a lack of motivation to share their expenses and the consequent resistance to a spending review's measures/recommendations on the one hand; and on the other hand, the lack of human resources to contribute to the process. There are two questions that have to be answered for the establishment of the regular spending review process:

1

How to motivate the line ministries to share their knowledge?

2

What would be the best time /periodicity for the line ministries' involvement considering the election cycle?

Technological aspect. There is no specific ICT infrastructure behind the spending review preparation process or a separate platform for publishing the results. The previous spending reviews were published either on the FI MoF's Publications page¹⁰³ or under the Institutional Repository for the Government (Valto)¹⁰⁴. Moreover, information gathered from the consultative meetings with the Project stakeholders indicates that technical challenges were encountered in creating the online report during the preparation of the Spending Review 2019.⁹⁸

Data-wise **State Treasury** serves as one of the data sources for spending reviews. There is an open-source API¹⁰⁵ maintained by the State Treasury. It covers the spending data and has detailed information on how the state budget is spent from 1998 onwards (spending accrued). Furthermore, there are ready-made Power BI reports that visualise data available from the open-source API.¹⁰⁶ The Power BI reports are available for each year starting from 2013. As an additional source of data available, there is also budget data¹⁰⁷ that includes estimates of annual revenues and estimated appropriations for annual expenditures, as well as the purposes of appropriations and other budget justifications. Data sources for a spending review depend on the reviews scope, objectives, topics. Generally, the FI MoF is satisfied with the level of data available.

Legal aspect (National level). There is no legislation on spending reviews in Finland. However, considering the need to increase synergies between spending reviews and evaluations within the medium-

¹⁰² Interviews with Finnish stakeholders (see 5.3 Stakeholder meetings for more information).

¹⁰³ <https://vm.fi/en/publications>

¹⁰⁴ <https://julkaisut.valtioneuvosto.fi/handle/10024/164695>

¹⁰⁵ <https://avoindata.tutkihallintoa.fi/apis>

¹⁰⁶ <https://www.tutkihallintoa.fi/valtio/taloustiedot/talousarviotalous-eli-budjettitalous/>

¹⁰⁷ <https://budjetti.vm.fi/>

term budget framework, spending review legal requirements might be partly dictated by the budgeting process requirements:

- An essential part of the Government's budget formulation process is the **Spending Limits** system (*Menokehukset*), a medium-term budgeting system used as a key fiscal policy instrument. The Government decides on Spending Limits for state budgets for each parliamentary term (four years). The Spending Limits set an upper limit for approximately 80% of central government budget expenditure. Adhering to the Spending Limits is not based on law, but rather on political commitment. These limits are checked every spring by the Parliament (following the Spending Limits Process) and have an annual price and cost level adjustment to account for inflation. The latest spending limits have been approved for 2024-2027.¹⁰⁸
- The **Spending Limits Process** (*Kehysmenettely*) is regulated by the decree on the State Budget (*Asetus valtion talousarviosta 1243/1992*).¹⁰⁹ The decree stipulates that ministries must submit their Spending Limits proposals for their respective sectors to the Ministry of Finance which then compiles its own Spending Limits proposal. In practice, the annual Spending Limits decision is prepared as part of the General Government Fiscal Plan, which is approved by the Government.
- To implement the EU's budgetary framework discussed below, Finland has issued the **Fiscal Policy Act (869/2012)**¹¹⁰. In accordance with the Act, the Government is obliged to set a medium-term budgetary objective. The objective and other compliance requirements are described more specifically below.
- **The State Budget** (*valtion talousarvio*) is announced once a year in autumn. The framework for Budgets is set out in the State Budget Act¹¹¹ (*laki valtion talousarviosta 423/1988*). The **annually** approved Budget is published in the Statutes of Finland yearly.¹¹²
- In accordance with the Constitution of Finland (Section 46), the Government is obligated to provide an **annual report on following the budget to the Parliament**. Currently, this is accomplished by giving a Government's Action Report (*hallituksen toimintakertomus*) and a Financial Statements Report of the State (*valtion tilinpäätöskertomus*). The Action Report consists of three parts: a brief summary of the year's most important events; a Foreign and Security Policy summary; and a list of actions the Government has taken to execute the Parliament's decisions.¹¹³ The Financial Statements Report, on the other hand, aims to give a true and fair view on the compliance with the budget, the state's income and expenses, the financial state, and the profitability of the state.¹¹⁴ It consists of the state's financial statements with attachments and the most important information on the management of state finances and compliance with the budget. The Financial Statements Report is the most effective tool for the Parliament in monitoring the execution of Budget power.¹¹⁵
- The Parliament's Audit Committee, as per Section 90 of the Finnish Constitution, supervises compliance with the State budget. Alongside the independent National Audit Office, the Committee oversees government financial management and budget adherence. Both entities

¹⁰⁸ <https://vm.fi/documents/10623/307577/valtiovarainministeri%C3%B6n+ehdotus+valtiontalouden+kehyksiksi+vuosille+2024+2027.pdf/d742ab51-7cd1-2145-2e2d-f54ebca851d3/valtiovarainministeri%C3%B6n+ehdotus+valtiontalouden+kehyksiksi+vuosille+2024+2027.pdf?t=1693218441105>

¹⁰⁹ See Harrinvirta - Puoskari 2001

<https://www.taloustieteellinenyhdistys.fi/images/stories/kak/kak32001/kak32001harrinvirta.pdf> for more details on the history of the Spending Limits Process.

¹¹⁰ Laki talous- ja rahaliiton vakaudesta, yhteensovittamisesta sekä ohjauksesta ja hallinnasta tehdyn sopimuksen lainsäädännön alaan kuuluvien määräysten voimaansaattamisesta ja sopimuksen soveltamisesta sekä julkisen talouden monivuotisia kehyksiä koskevista vaatimuksista.

¹¹¹ https://www.finlex.fi/en/laki/kaannokset/1988/en19880423_20060447.pdf

¹¹² Material provided by the Finnish MoF. Budjettiprosessi PwC.

¹¹³ Saraviita, Ilkka, Perustuslaki. Second edition, Alma Talent Oy, 2011. pp. 432–434.

¹¹⁴ <https://vm.fi/hallituksen-vuosikertomus-ja-valtion-tilinpaatos>

¹¹⁵ Saraviita, Ilkka, Perustuslaki. Second edition, Alma Talent Oy, 2011. pp. 432–434.

have the authority to obtain necessary information from public authorities and other entities that are subject to their control to fulfil their duties. The supervisory authority is mainly implemented through reporting submitted to the Audit Committee, which supplements its information through separate investigations and audit visits. The Audit Committee is the entity in Parliament reviewing the aforementioned reports. Concrete auditing activities related to state finances are carried out through the National Audit Office. In accordance with the State Budget Act, the supervision of state finances during the financial year is performed as internal supervision meaning that government agencies must ensure that internal supervision is appropriately organised both in their own operations and in activities for which they are responsible.¹¹⁶

Legal aspect (European context). The European Union has introduced various measures on economic governance since the 1990s. To ensure economic stability within the EU, the **Stability and Growth Pact (SGP)** was created. The legal basis for the Pact is **Articles 121 and 126 of the Treaty on the Functioning of the European Union (TFEU)**. Protocol 12 annexed to the Treaty gives further details on the excessive deficit procedure, including the reference values on deficit and debt. Article 136 of the TFEU provides for specific provisions to be adopted for the euro area. It is the basis for sanctions regulation for euro area countries (included in the so-called **Six-Pack**) and the **Two-Pack regulation**, which covers enhanced monitoring and surveillance in the euro area.¹¹⁷

The **European Semester's** purpose is to coordinate economic and fiscal policies.

Next, the European Union established the **European Semester** in 2010 with the goal of monitoring national progress on economic and fiscal policies.¹¹⁸ The European Semester is a core component of the Economic and Monetary Union (EMU) and it has strengthened the SGP. The European Semester is an annual cycle where the Commission and the Council of the EU (Council) analyse the Member State's fiscal and structural policies.

Subsequently, the EU has enacted several reforms concerning EU economic governance, primarily the EU Six-Pack and the EU Two-Pack. The Six-Pack relates to five regulations and one directive given together in 2011.¹¹⁹ The Six-Pack amends the SGP and specifies the circumstances of a Member State's deviation from safe financial policy.¹²⁰ Each Member State is obliged to submit an SGP compliance report to the Commission and **Council of Ministers**. In the compliance report, the Member State must present expected fiscal development for the current and subsequent three years (Medium-term budgetary objectives, MTO).¹²¹

EU Six-Pack and EU Two-Pack are at the centre of the economic governance framework.

The EU Two-Pack relates to two regulations given together in 2013.¹²² The regulations built on what was agreed in the Six-Pack and introduced additional coordination and surveillance of budgetary processes. This included requirements for the euro area Member States to **prepare their budgets according to common standards and a common timeline**, submitting drafts to the Commission and each other. Additionally, the EU Two-Pack strengthened the monitoring of the budgets of Member States in serious difficulties with financial stability.

European Commission focuses on **reforming the economic governance framework** to make it more resilient and sustainable.

In December 2023 the Council of the European Union agreed on the proposed reform of the EU's economic governance framework, following a proposal put forward by the European Commission in November

2022. This provides a mandate for negotiations on the preventive arm and for consultations on the corrective arm with European Parliament, due to start in January 2024. The **main objective of the reform**

¹¹⁶ Saraviita, Ilkka, Perustuslaki. Second edition, Alma Talent Oy, 2011. pp. 761–763.

¹¹⁷ [Legal basis of the Stability and Growth Pact \(europa.eu\)](https://european-council.europa.eu/media/en/press-communications/infographic/infographic-legal-basis-of-the-stability-and-growth-pact)

¹¹⁸ [European Semester | EPR](https://european-council.europa.eu/media/en/press-communications/infographic/infographic-european-semester)

¹¹⁹ Regulation 1175/2011, Regulation 1177/2011, Regulation 1173/2011, Directive 2011/85/EU, Regulation 1176/2011, Regulation 1174/2011

¹²⁰ Kuoppamäki, Petri – Raitio, Juha, Rahaliiton rakenteelliset ongelmat ja Euroopan velkakriisi. Defensor Legis 6/2015. pp. 1090-1091.

¹²¹ https://ec.europa.eu/commission/presscorner/detail/en/MEMO_11_898

¹²² Regulation 473/2013, Regulation 472/2013

is ensuring sound and sustainable public finances, while promoting growth and job creation in all Member States through reforms and investment. The Council agreed on the framework’s overall objective – reducing debt ratios and deficits in a gradual, realistic, sustained and growth-friendly manner while protecting reforms and investment in strategic areas. The new framework will allow multi-annual country-specific fiscal trajectories for each Member States to take into account the heterogeneity of fiscal positions, public debt and economic challenges across the EU. Each Member States will prepare a medium-term fiscal-structural plan, spanning over four or five years, where they commit to a fiscal trajectory and public investments and reforms that together ensure sustained and gradual debt reduction and sustainable growth.¹²³

The Commission's Communication to the Council for 2024 fiscal policy guidance highlights the need to address pre-pandemic economic challenges (e.g., enhancing potential growth, promoting green and digital transitions equitably, etc.). These factors will put more pressure on public finances in the medium term. Moreover, public investment will be bolstered through increased expenditure under the Recovery and Resilience Facility and the implementation of Cohesion Policy programmes.¹²⁴

While there is no specific EU legislation on spending reviews, the European Commission actively encourages their use among the EU Member States through studies and thematic discussions. In particular, the Commission has encouraged Member States to engage in spending reviews as part of the European Semester.¹²⁵

There is no EU-level legislation on spending reviews, but the *usage of the spending reviews* is actively promoted by the European Commission.

Additional Commission documentation related to this effort includes a 2018 staff working document on spending review¹²⁶ and a 2016 Commission note on the Quality of Public Finance Spending Reviews for Smarter Expenditure Allocation in the euro area.¹²⁷ Article 288 TFEU clarifies that recommendations and opinions shall have no binding force, hence, the Commission’s documentation is not legally enforceable.

3.2.4 Alignment with political priorities

The establishment of the regular spending review process is aligned with current political priorities. The Government’s objectives and main areas of activity for the ongoing parliamentary term¹²⁸ regarding the budget procedures, spending limits and public spending monitoring are reflected in the following statements.

Budget procedures and spending limits:

<p>➤ The priorities of the Government’s economic policy are economic stability, employment, economic growth and safeguarding welfare services.</p> <hr/> <p>➤ The Government aims to strengthen general government finances by EUR 6 billion during this parliamentary term. A longer-term goal is to balance general government finances and set the debt ratio on a downward path towards the level of the other Nordic countries.</p> <hr/> <p>➤ The Government will reform and strengthen fiscal policy rules.</p>	<p>➤ The strengthening of national fiscal policy and the changes in the EU’s fiscal policy framework will be reconciled in national legislation.</p> <hr/> <p>➤ The Government undertakes to adhere to the spending limits that it has set, and to the spending limits decision based thereupon included in the first General Government Fiscal Plan of the parliamentary term.</p>
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¹²³ [Economic governance review: Council agrees on reform of fiscal rules - Consilium \(europa.eu\)](https://consilium.europa.eu/en/press/press-releases/2023/08/23/)
¹²⁴ [COM 2023 141 1 EN ACT part1 v4.pdf \(europa.eu\)](https://eur-lex.europa.eu/legal-content/EN/ACT/PDF/?uri=CELEX:32023R1411)
¹²⁵ https://economy-finance.ec.europa.eu/system/files/2020-12/dp135_en.pdf p. 11.
¹²⁶ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018SC0171>
¹²⁷ https://www.consilium.europa.eu/media/23664/spending-reviews_commission_note.pdf
¹²⁸ <https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/165044/Programme-of-Prime-Minister-Petteri-Orpos-Government-20062023.pdf?sequence=4>

Public spending monitoring:

- The Government will **promote** good and **open governance**.
- The Government will actively **monitor the implementation** of the set of **measures** within the government **budget and spending limits** sessions and react with **corrective measures** should the set of measures threaten to fall short of the targeted level of EUR 6 billion.
- The Government will **enhance the systematic production, analysis and utilisation of comparable data** on quality, effectiveness and cost-effectiveness.
- The Government will implement a central **government productivity programme** to support the Government's objectives for sustainable public finances. The implementation of the productivity programme will harness the potential of digitalisation to improve the efficiency of the public sector.
- The Government aims to **achieve significant cost savings** in the medium term **through more efficient public procurement**.

In order to improve the efficiency of wellbeing services counties, the Finnish Government intends to introduce effective and cost-efficient methods in healthcare and social welfare. The Government plans to support research on the effectiveness and cost-effectiveness when the focus is on the service system, healthcare and social welfare and the promotion of health and wellbeing. Moreover, one of the objectives is also to expand the knowledge base and increase the availability, transparency and comparability of information regarding the effectiveness, service availability, and cost-effectiveness of the wellbeing services counties. The Government will monitor trends in costs and service needs annually and publish the unit costs of healthcare and social welfare services from 2025 onwards. The Government intends to curb the rise in costs of wellbeing services in counties and municipalities by examining the operations, functions, and obligations of wellbeing services in counties and municipalities. This will ensure that budgetary control is maintained.

According to the publication of the **Ministry of Finance 2022:71, Developing the steering of general government finances**, there is a clear need for a spending review as well as an analysis of whether all expenditures financed in the past parliamentary term under the exception mechanism and the exception clauses were really justified.¹²⁹ The publication also highlights the following **aspects of establishing a consistent steering framework** for general government finances:

- The need to ensure compatibility with the EU's fiscal policy framework that is currently being reformed, having the goal of long-term sustainability in mind.
- The need to take into account the change in 2023 when the responsibility for the organisation of health, social and rescue services has been transferred from the municipalities to the wellbeing services counties. The wellbeing services counties may involve unexpected and potentially large spending needs.
- Need for clear and understandable rules.
- Need to leave sufficient room for manoeuvre for fiscal policy to respond to practical decision-making situations.
- Need to support the Government in decision-making on economic policy and need to secure broad political – and even parliamentary – commitment.

3.3 Other relevant information

In his section, a brief overview of the other information, relevant to the spending review process, is presented.

The 2023 Tax survey (verokartoitus)¹³⁰ was prepared alongside the 2023 Spending Review, and they both serve as a follow-up to the 2022 outlook review by officials at the Ministry of Finance. Both documents were intended to support political decision-making. The tax survey does this by producing information on the income from the Finnish tax system, by providing various options for tightening the tax system and by assessing the effects of these options. The Tax survey is the first of its kind in Finland. It was made by a working group that was reporting to a steering committee at the same time as the spending review.

¹²⁹ FI MoF, Julkisen talouden ohjauksen kehittäminen. Valtionvarainministeriön julkaisu 2022:71. pp. 172.

¹³⁰ https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/164690/2023_VM_15.pdf?sequence=4&isAllowed=y

Additionally, in March 2023, the FI MoF published an **externally conducted research** report on potential **ways to save on public procurement**.¹³¹ Experts from PTCS Oy and professors from the University of Lapland and the University of Turku were involved. The report includes research that suggests ways to potentially **save EUR 500 million annually** in the **2023–2027** government term. The potential saving measures could be done by amending the Act on Public Procurement and Concession Contracts in different ways.

Moreover, in April 2023, the Prime Minister's Office published a **report assessing the Finnish fiscal framework** conducted **by the Research Institute of the Finnish Economy (ETLA)**.¹³² The report includes an assessment of the fiscal framework from the perspective of the role and development of the Finnish Spending Limits Procedure. The Spending Limits Procedure is about outlining the central government expenditure ceiling, led by the Ministry of Finance.

The project analysed fiscal frameworks through literature reviews, numerical simulations, and expert interviews from countries such as Sweden, Denmark, Ireland, the Netherlands and New Zealand. The report discusses how the framework should deal with major crises and long-term sustainability challenges, and what is the role of the revenue side, public investments, wellbeing services, and the EU fiscal policy regulations.

The study highlights the need for evaluating the sustainability of the fiscal policy in the long term and for setting clear mid-term objectives supported by political commitment. In addition, it reveals the ineffectiveness of the Finnish Spending Limits process and improvement needs. It raises the necessity to have a comprehensive reassessment of the Finnish fiscal policy rule framework as well as the need to potentially reform the system and clarify its operating model.

3.4 Key challenges and conclusions



Previous spending review effort analysis

- The first spending reviews were of a descriptive nature and focused on the largest, most significant and interesting sectors of public finances. The Spending Review 2023, on the contrary, focused on the whole public finances and its objective was identifying saving measures. The first spending reviews lacked specific targets to be achieved and cost-effectiveness analysis, while the Spending Review 2023 exhibited a well-defined scope, objectives, process of conducting the review, recommendations for improving general government finances, etc. The 2023 Spending Review's goal was to provide wide range of measures to improve public finances to provide a new government with options to choose from based on their priorities.
- All conducted spending reviews were time-bound and completed in time for the preliminary stages of the annual budgeting process (all previous reviews) and prior to the parliamentary elections (except for the Spending Review 2016) to support decision-making during new parliamentary terms.
- Only the Spending Review 2016 included a brief analysis of spending activities alignment with the government's priorities as its timing was different to other spending reviews.



Governance model

- All previous spending reviews were led by the FI MoF and performed by the assigned working group. The working groups consisted of experts from within the MoF's Budget Department. There is a certain degree of cooperation with the line ministries, but no procedures/provisions to formalise the ministries' contribution. The spending review process is yet to be institutionalised.

¹³¹ <https://vm.fi/documents/10623/150718668/>

¹³² <https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/164816/>



Challenges

- Several major challenges have been identified: the workload of the MoF, the lack of involvement from the line ministries, as well as building trust in the spending review process and overcoming the unwillingness to reallocate spending. Additionally, some technical challenges were encountered during the preparation of the Spending Review 2019.



Legal aspects

- There is no specific legislation on spending reviews in Finland. However, considering the link between spending reviews and the annual budgeting framework, the requirements and corresponding legislation to the budgeting process have been analysed.
- The usage of spending reviews is promoted on the EU level. The European Commission actively publishes studies on spending reviews and encourages Member States to engage in spending reviews as part of the European Semester.



Alignment with political priorities

- The establishment of a regular spending review process is strongly aligned with current political priorities, which is reflected in the statements from the Programme of Prime Minister Petteri Orpo's Government regarding budget procedures, spending limits and public spending monitoring.

4. Overview of working arrangements

4.1 Timeline for submission of deliverables

The timeline for the submission of deliverables is included below (Table 9). The original proposed timeline has been changed based on the feedback received from the beneficiaries and to accommodate holiday schedules. The submission dates are flexible and can be adjusted during the initiation/planning stages of a deliverable (e.g. via status update meetings or email), or during a Project Steering Committee meeting – please see 4.6 Communication schedule.

The feedback timeline for each deliverable will work as follows:

- PwC officially submits the deliverable by the date indicated in the table and timeline below.
- DG REFORM and beneficiary comment simultaneously within 30 calendar days.
- PwC has 10 working days to respond to the comments from the moment of receipt of the comments.

Table 9. Timeline for submission of deliverables

Outputs	Date
Start of the contract	2 October 2023
Deliverable 1: Inception Report	1 December 2023
Deliverable 2: Technical report on international good practices on the design, structure, governance and implementation of spending reviews	1 April 2024
Task 1: Identify the jurisdictions with the most relevant good practices	
Task 2: Research on good practices	
Task 3: Preparing the report on best practice countries study	
Task 4: Organising a joint seminar on international good practices	
Deliverable 3: Technical reports with recommendations for a structured spending review process	1 June 2024
Task 1: Designing the to-be situation with the spending review process	
Task 2: Performing Gap analysis	
Task 3: Developing recommendations and policy options	
Task 4: Drafting an analytical report on changes in the legislative framework in Estonia	
Task 5: Producing technical report	
Deliverable 4: Manual for doing spending reviews in Estonia	1 June 2024
Task 1: Develop a draft manual for spending reviews in Estonia	
Task 2: Finalise the manual after feedback	
Deliverable 5: Joint seminar	1 June 2024
Deliverable 6: Final report, closing event for Finland	1 July 2024
Task 1: Preparing the Final Report	
Task 2: Organising and holding the Closing Event	
Deliverable 7: Capacity-building workshops for Estonia (with Finland as observer)	1 November 2024

Outputs	Date
Task 1: Designing the Training Programme	
Task 2: Execution of Workshops/Training	
Deliverable 8: Facilitating pilot spending reviews on selected areas, and facilitating workshops and seminars in Estonia.	1 July 2025
Task 1: Organising workshops and seminars to conduct the pilot spending reviews	
Task 2: Producing a summary report for each capacity-building activity	
Task 3: Providing recommendations for future consideration	
Task 4: Finalising the report following the feedback	
Deliverable 9: Final report, closing event for Estonia	1 August 2025
Task 1: Preparing the Final Report	
Task 2: Organising and holding the Closing Event	
Deliverable 10: Progress reports	Every 6 months.
Expected end date	1 August 2025

Below we present the visualisation of the updated Project timeline.

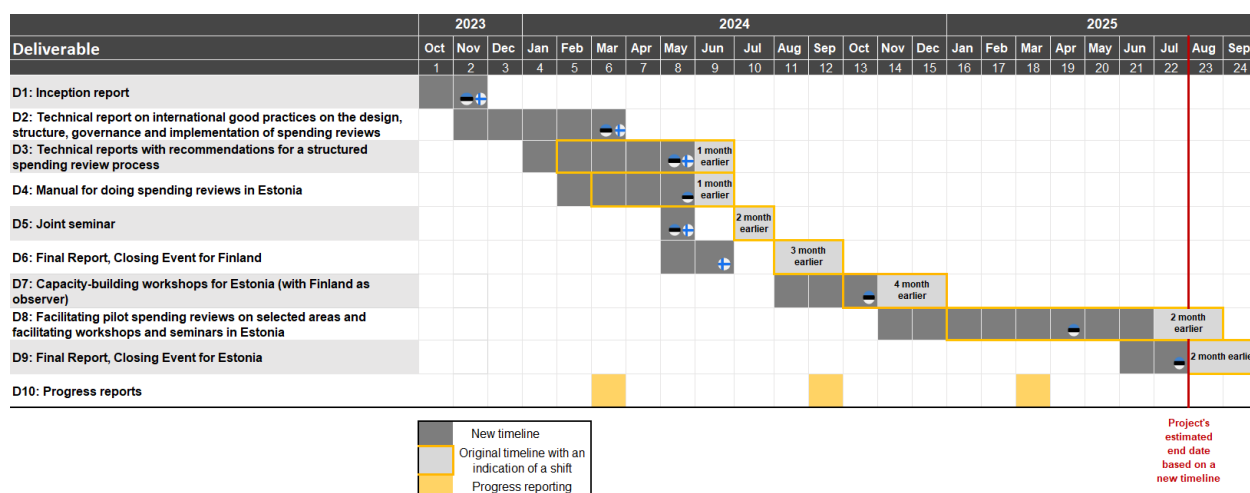


Figure 8. Visualisation of the Project timeline

4.2 Methodology frameworks to be applied

4.2.1 Common methodology

Our proposed methodological framework integrates a comprehensive combination of project-level methodology and established project management frameworks. Additionally, we have incorporated deliverable-specific methodology tailored to the unique aspects of each project component. To ensure consistency, we employ the same frameworks and methodologies for both countries. Additional methodology will be employed for specific deliverables exclusive to Estonia. This tailored approach recognises the specific needs of each country within the overarching project.

In the execution of the Project, we will apply **PwC's Transform methodology**, tested and used internationally. Transform is a comprehensive framework and a collection of good practices and tools for transformation projects focused on efficiency improvement in complex organisations such as the Public Sector and Governments. This methodology will provide a guideline throughout the project.

In this project, we will use **all the phases** of the Transform methodology, being mostly accountable for the Strategy & Assess, Design, Construct, and Implement phases and providing support and expert consultation for the Operate & Review phase. They ensure sufficient coverage of the operational, technological, organisational, and legal aspects of the project. **We will strengthen the use of the framework by applying PM – Agile methodology**, described later in this section.

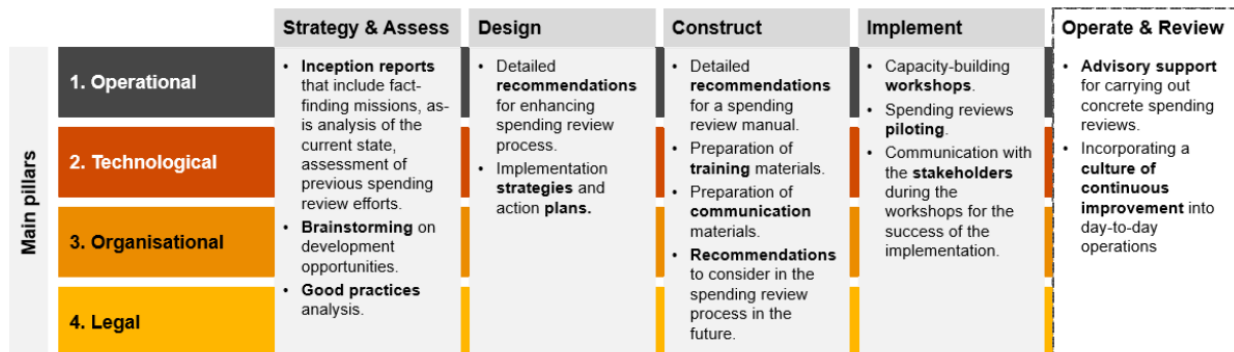


Figure 9. PwC's Transform methodology

As a **project-specific framework** (within D3), we will employ and customise the **SMART framework** (Figure 10), which is a widely used technique in project management for setting clear and attainable goals. SMART is an acronym that stands for Specific, Measurable, Achievable, Relevant and Timely. It will provide highly pragmatic, specific and actionable recommendations, and ensure a comprehensive approach to reaching and maintaining the to-be situation.

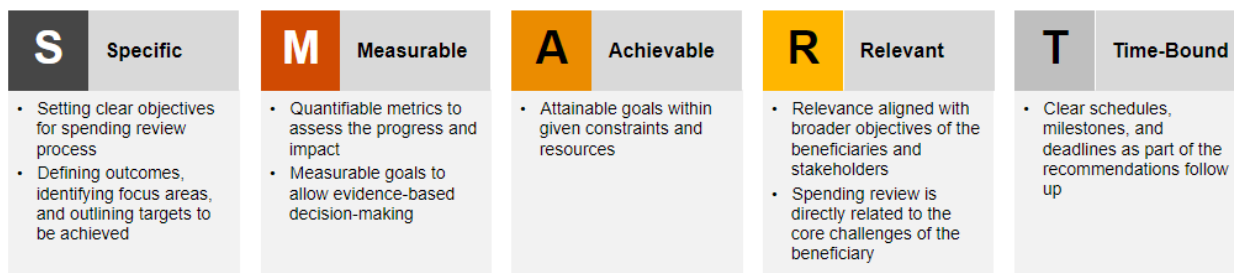


Figure 10. SMART framework

We will maintain the **RASCI matrix**¹³³ to provide a clear division of roles and responsibilities of PwC, DG REFORM, the Beneficiaries and relevant stakeholders. We will use the RASCI matrix for each deliverable during the planning phase of a deliverable.

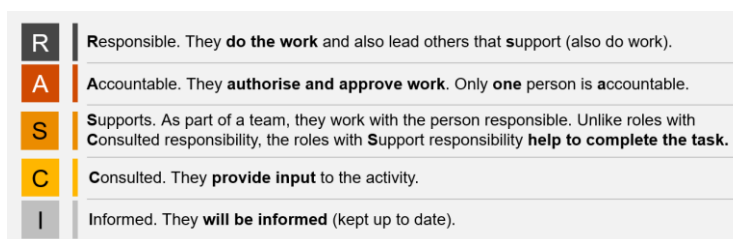


Figure 11. RASCI approach

Additionally, we will also apply the **SWOT framework** to analyse good practice countries as well as the current situation of the Beneficiaries to gain a better understanding of the critical success factors. SWOT analysis is a technique for assessing the **Strengths, Weaknesses, Opportunities and Threats** of a project/business commonly used for strategic planning.

We will follow several best practices to ensure an **efficient collaborative approach**:

- (1) Basic user training for the workshop participants** on the basics of design thinking in the agile environment, supported by a one-pager on the best practices of design thinking.
- (2) Utilising user-friendly and safe technology (Mural, Menti)** to facilitate collaborative ideation work and active discussion in the hybrid environment.

¹³³ PM2 – Agile, Guide 3.0.1 <https://op.europa.eu/en/publication-detail/-/publication/ed85debf-decc-11eb-895a-01aa75ed71a1/language-en>

We will employ **PM² – Agile methodology** as a **project management methodology** for planning and coordinating the work. **PM²** methodology concentrates on ensuring streamlined project flow with continuous improvement of project management practices, while the **Transform methodology** provides a structure for in-depth analysis of the subject matter.

PM² defines **four Phases** (Initiating, Planning, Executing and Closing), which are sequential and non-overlapping. The sequence of phases will be performed for each deliverable, starting with proper initiation and planning of all tasks and ending with closing a deliverable with its evaluation from a project management perspective.

We anticipate that the stakeholders representing different countries will be characterised by divergent needs and expectations. Thus, we will focus on obtaining strong support from the stakeholders during the initial phases of the Project and will **continuously engage a complex network of stakeholders** throughout the Project implementation.

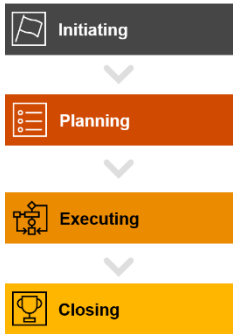


Figure 12. PM² – Agile methodology

4.2.2 Methodology exclusive to Estonia

PwC's Next Gen Change methodology for D4

Special attention will be paid to **motivating and engaging stakeholders**. To ensure the implementation of the to-be state through D4, it is important to address the change management activities as well. To adequately support the required change management activities, we will utilise PwC's **Next Generation Change methodology**, which focuses on three change management pillars. Through NextGen Change, the Beneficiary can quickly adapt to the revised ways of working on spending reviews. The key is to manage the change in collaboration with stakeholders engaged at every step.

Change Management Pillars

👁 Vision & Leadership	📄 Comms & Engagement	👤 Skills & Behaviours
Effective leadership at all levels is pivotal to the success of a change, from those who define the vision, to those on the front lines championing the change.	People's experiences throughout a change will impact the degree to which they connect with and enable that change.	To change ways of working, people need to understand what new behaviours are expected, and what new capabilities are required.
Be bold Be visible Start with the end in mind	Tell a story Build momentum Take a pulse	Make it stick Play games Focus on behaviours

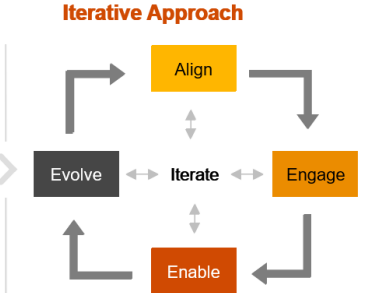


Figure 13. PwC's Next Generation Change methodology.

Approach for D7 capacity-building workshops

In the execution of the workshops, we will employ a "See-do" approach (Figure 14) to ensure the long-term sustainability of the skills transfer to a wider audience. The first layer, "**See-one**", involves on-site train-the-trainer sessions led by an instructor. Trainees will participate in two types of sessions: (1) upskilling sessions to ensure the acquisition of the necessary skills and (2) training sessions, where our team will outline the techniques used, practice coaching skills and engage in discussions. The second layer, "**Do-one**", will consist of training sessions for a wider group of identified stakeholders. The trained coaches, in collaboration with our team, will have the opportunity to deliver selected thematic areas. The goal of this layer is to gradually familiarise the coaches with the coaching and mentoring process. Throughout this process, we will closely monitor and provide support and mentorship to the trainers. We will supervise and evaluate the entire process, providing trainers with feedback upon completion of the training.

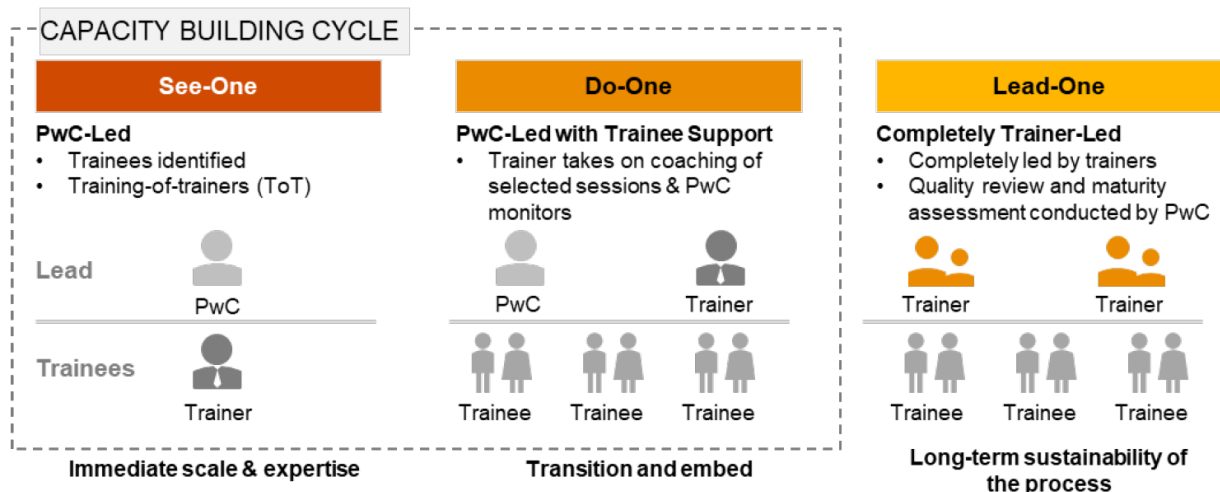


Figure 14. The capacity-building cycle

Prioritisation Framework for D8

We have proposed a systematic framework for prioritising recommendations and capturing critical insights to be used in D8 (Figure 15). The framework will consider the recommendations' potential, implementation feasibility and certainty, as well as the valuable feedback provided by the Beneficiary. The goal is to identify the most compelling proposals for implementation. The ease of implementation variable covers such factors as risk, time, economic cost and non-economic costs, while the impact variable includes expected savings, secondary benefits and nonmonetary savings. Using this classification system, it will be possible to discard certain proposals that lack interest due to their minimal impact, implementation challenges or low probability of implementation.

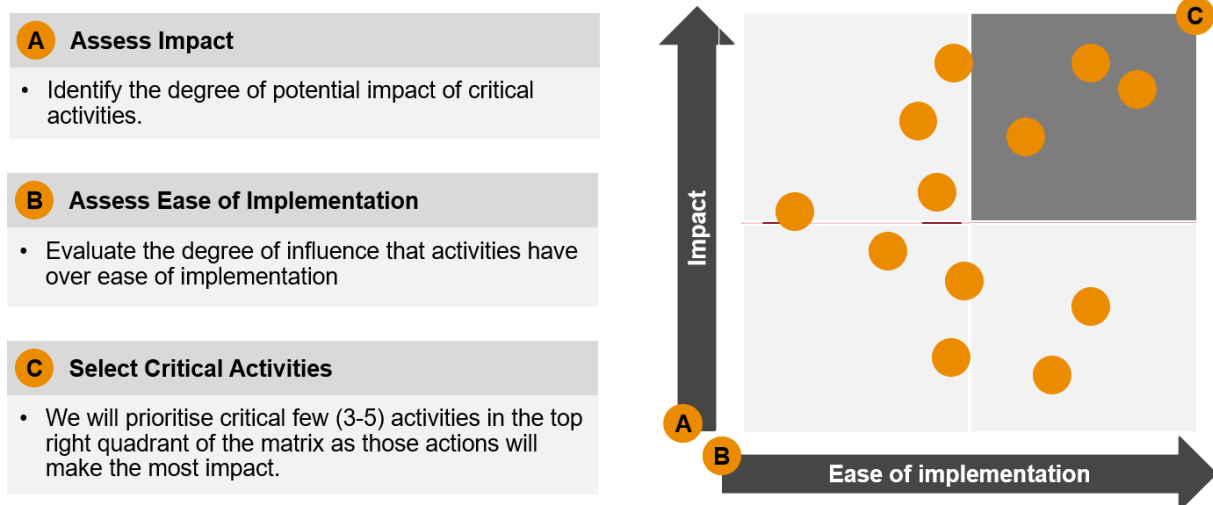


Figure 15. Prioritisation Framework

4.3 Detailed overview of the deliverables

Below we present the overview of the deliverables, methodological approach, and our way to approach the specified tasks and to identify key focus points for analysis at each deliverable stage. In addition, we will pay special attention to report review, collaboration and finalisation of each deliverable. We will review each draft report in an interactive walk-through meeting with the Beneficiaries and DG REFORM prior to the official submission deadline and update the report based on the comments received.

4.3.1 Deliverable 2: Technical report on international good practices on the design, structure, governance and implementation of spending reviews

Countries involved: Finland and Estonia.



Objective

Identifying critical success factors for the design, implementation and evaluation of spending review processes via best practice country research.

Activities to be undertaken:



Task 1: Identify the jurisdictions with the most relevant good practices

We will identify up to 5 relevant good practice jurisdictions based on jointly agreed selection criteria. The selection criteria for identifying good practice jurisdictions are as follows:

- **Experience in conducting spending reviews** (number of years, positive feedback, recognition, types of reviews conducted).
- **Spending reviews' impact** on budget planning and policy development (incl. integration with budget planning, the linkage between evaluations and spending reviews, the provision of saving measures/efficiency improvement recommendations, etc.).
- **Clear governance model and mechanism** (incl. follow-up to conducted spending reviews, the degree of line ministries' involvement in the spending review process, and availability of support on the legislation level).

"Clear objectives and scope for sending reviews as management instrument" is a default criterion for the best practice countries. Additionally, the countries' selection will aim to provide sufficient coverage of existing spending review practices in terms of scope, periodicity and objectives.

The **following countries will be evaluated** against the presented criteria: Denmark, Ireland, the Netherlands, the UK, Latvia, France and Germany.

The final selection of countries (5 jurisdictions) will be agreed upon together with the Beneficiaries and the DG REFORM.



Task 2: Research on good practices

- Conducting desk research to identify critical success factors and gather good practices for spending review processes in the selected jurisdictions. The focus of the research will be on the following aspects: **organisation and impact of spending reviews, selection of focus areas, as well as policy evaluations**. Each aspect will be assessed across all four dimensions of the Transform methodology.
- **Summarising** the results using SWOT analysis to evaluate the overall success of the country's approach to institutionalisation of spending reviews and incorporate lessons learnt.

Note: the desk research will contain the comparison of a country in question with Finnish and Estonian contexts to account for the differences in the governments' setups.

- Organising **virtual one-on-one meetings** with representatives of each **selected country** to validate the desk research results. A special attention will be given to collecting lessons learned from the countries' experts and identifying key success factors for spending review implementation.
- Organising two to three **one-on-one meetings with international institutions** (e.g. IMF, OECD, EU Commission, etc.) to validate the desk research results.



Task 3: Preparing the report on best practice countries study

- Drafting a report on the best practice study's results that covers the following topics:

- Results of our research on relevant good practices in spending reviews and evaluations.
- Identified critical success factors for the design, implementation and evaluation of spending review processes.
- Successful case studies and examples from selected good practice jurisdictions.
- Conclusions and recommendations for the implementation of spending review processes in Estonia and Finland (separate chapters).


- Finalising the report following the input from DG REFORM and the Beneficiaries.

Task 4: Organising a joint seminar on international good practices

- Organising an in-person and/or virtual seminar with the Beneficiaries, DG REFORM and other relevant stakeholders to present the report on international good practices. The joint seminar will serve as an opportunity to onboard the relevant stakeholders to the implementation of a regular spending review process. Also, we suggest inviting representatives of the best practices countries and international institutions to the seminar to share their first-hand experience.

4.3.2 Deliverable 3: Technical reports with recommendations for a structured spending review process

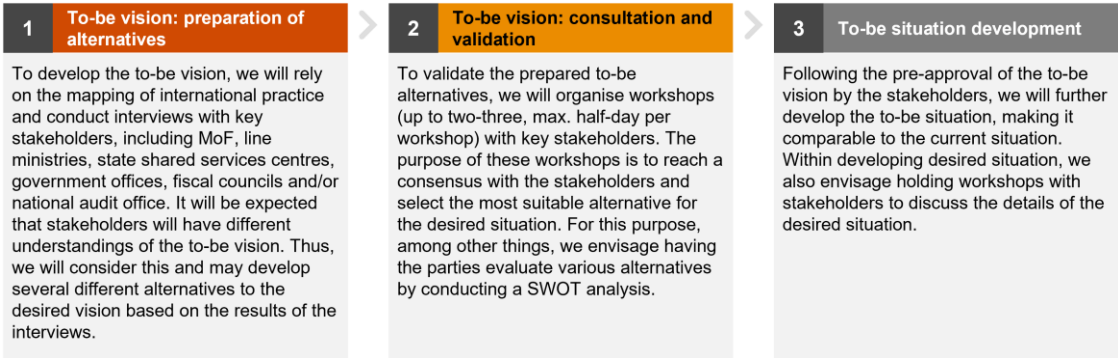
Countries involved: Finland and Estonia. Task 4 is for Estonia only.

 **Objective** Designing the to-be state for each Beneficiary and conducting gap analysis; providing SMART recommendations and policy options to support the Beneficiary in reaching the to-be state; performing legal analysis for Estonia only.

Activities to be undertaken:

Task 1: Designing the to-be situation with the spending review process

- Designing the to-be state of spending review process on three steps:



The to-be situation development will cover four dimensions of the **Transform methodology**:

- **Operational:**

- Institutional framework.
- Processes & subprocesses description using the BPMN methodology.
- Performance indicators: key performance indicators for the to-be spending review process & suggestions on the methodology for quantifiable performance indicators for assessing a spending area or programme.

- **Technological:**

<ul style="list-style-type: none"> ➤ ICT landscape: key technologies and technological tools; ICT architecture for the spending review process (incl. data storing and integrations); data processing steps. 	<ul style="list-style-type: none"> ➤ Data aspects: data sources are analysed and defined; data quality and completeness are at the required level to match the needs of spending; possible data distortions are analysed to avoid major data handling errors.
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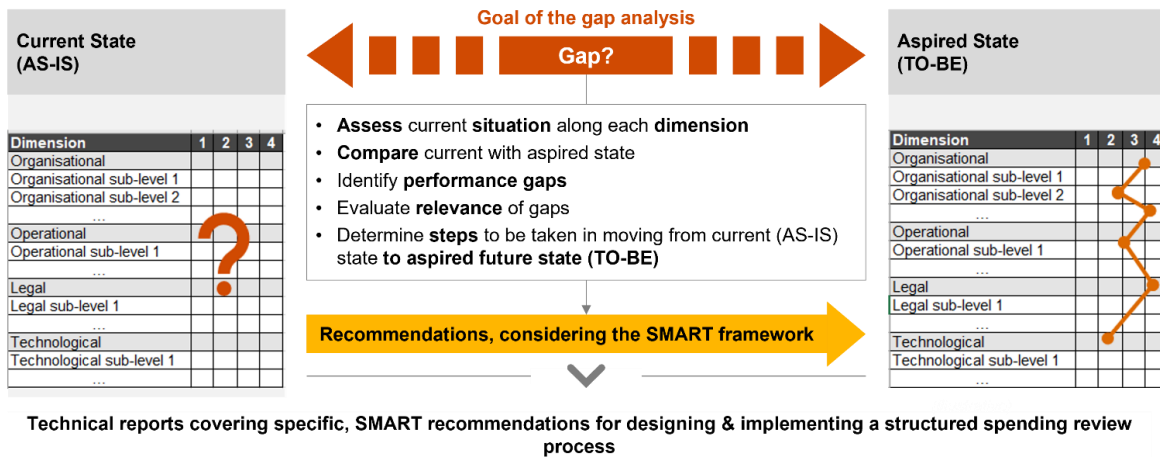
- **Organisational:**

<ul style="list-style-type: none"> ➤ Organisational structure and governance mechanism based on the best practices and recommendations of international institutions that incorporate country-specific context. 	<ul style="list-style-type: none"> ➤ Spending review teams and their capabilities (teams' setup, the list of ideal skill sets for an efficient spending review preparation).
<ul style="list-style-type: none"> ➤ Roles and responsibilities described with RASCI matrix. 	<ul style="list-style-type: none"> ➤ Strategic planning (vision for the future, goals and specific objectives).
<ul style="list-style-type: none"> ➤ Political commitment (reviewing feasibility with the relevant stakeholders). 	

Legal: accounting for constantly changing regulatory and policy frameworks to support compliance in the to-be state.

Task 2: Performing Gap analysis

- Performing gap analysis to identify the differences between the as-is and the to-be states by focusing on for dimensions of the PwC Transform Methodology:



Task 3: Developing recommendations and policy options

- Developing recommendations for each Transform dimension, using the SMART framework to bridge the gaps between the as-is and the to-be states.
- Developing policy options.
- Providing advice on working with stakeholders' engagement and change management activities.

Task 4: Drafting an analytical report on changes in the legislative framework in Estonia

- Gathering evidence for the analytical report through desk research and stakeholder interviews. The focus of this activity is on Estonia's current legislative and policy framework.
- Addressing regulatory gaps and contradictions with EU spending review policies/acts.

- Preparing analytical reports on the legislative framework to propose options on how to manage spending reviews.
- Assisting the EE MoF during public, inter-sectoral, inter-institutional and other consultations related to the analytical report.
- Finalising the report and preparing the executive summary.



Task 5: Producing technical report

- Producing and finalising a technical report that will contain:



To-be state of spending review process that considers national context, while following the best practices.



Recommendations and policy options on how to reach the to-be situation, motivate and engage stakeholders.



Gap analysis results to identify missing or/and excessive process milestones, capabilities and assets.

4.3.3 Deliverable 4: Manual for doing spending reviews in Estonia

Countries involved: Estonia.



Objective

Developing a manual that will serve as a practical change management tool for introducing a new structured spending review process.

Activities to be undertaken:



Task 1: Develop a draft manual for spending reviews in Estonia

- Assessing the measures to be taken to implement the SMART recommendations.
- Prioritising the actions using the Prioritisation Framework.
- Assessing the associated challenges that should be overcome to achieve the to-be situation.
- Motivating and engaging stakeholders (PwC's Next Generation Change methodology).
- Developing the implementation roadmap using Transform Methodology dimensions.



Task 2: Finalise the manual after feedback

- Receiving the feedback from the DG REFORM and the Beneficiary and adjusting the manual accordingly.
- Finalising the report.

4.3.4 Deliverable 5: Joint seminar

Countries involved: Finland and Estonia.



Objective

Presenting the technical reports (D3) as well as the manual (D4); collecting and iterating the feedback from the participants.

Activities to be undertaken:



Task 1: Organising a joint in-person seminar with the Beneficiaries and stakeholders

- Sharing the report and the detailed agenda prior to the seminar.
- Presenting the technical reports and the manual developed under D3 & D4.
- Collecting feedback.
- Sharing the summary of the main conclusions after the event.

4.3.5 Deliverable 6: Final report and closing event for Finland

Countries involved: Finland, Estonia (as observer).



Objective Finalising the project for Finland and reflecting on the actual outcomes.

Activities to be undertaken:



Task 1: Preparing the Final Report

- Preparing the final report that will consist of all deliverables, presentation and project public brief.



Task 2: Organising and holding the Closing Event

- Presenting the final outcomes to the Beneficiary and relevant stakeholders.
- Preparing the communication materials.

4.3.6 Deliverable 7: Capacity-building workshops for Estonia (with Finland as observer)

Countries involved: Estonia



Objective Providing capacity building and support training to the Estonian Beneficiary Authorities and the relevant stakeholders for the identification and selection of high-impact areas for spending reviews and to support inter-departmental coordination and review process within the administration.

Activities to be undertaken:



Task 1: Designing the Training Programme

- Identifying the needs for capacity building and training.
- Creating a training map, following the principles of exemplary adult education.
- Examining training methods for each training and target group in collaboration with the Ministry of Finance and developing a training methodology.
- Reviewing the training methodology and programme with the Ministry of Finance and incorporating the feedback.
- Agreeing on participants, the timeline and training materials.



Task 2: Execution of Workshops/Training

- Determining the format of the event.
- Applying the “See-Do” approach to the training/workshops.
- Developing a report on the delivered capacity-building activities, comprising the developed training material.

4.3.7 Deliverable 8: Facilitating pilot spending reviews on selected areas and facilitating workshops and seminars in Estonia

Countries involved: Estonia



Objective

Facilitating pilot spending reviews on selected areas and conducting workshops and seminars aimed at institutionalising spending reviews and evaluations in Estonia.

Activities to be undertaken:



Task 1: Organising workshops and seminars to conduct the pilot spending reviews

- Facilitating up to 2 to 4 projects in the piloting process.
- Providing comprehensive support and guidance to the spending review teams.
- Formulating recommendations for improving spending reviews.



Task 2: Producing a summary report for each capacity-building activity

- Creating a fact sheet for each recommendation and activity (purpose, rationale, description, anticipated benefits and potential drawbacks).



Task 3: Providing recommendations for future consideration

- Developing a matrix to help identify and prioritise the most compelling proposals for implementations.



Task 4: Finalising the report following the feedback

- Receiving feedback from the DG REFORM and the Beneficiary.
- Proposing and formulating final improvements.
- Providing conclusions and outlining the next steps to be taken.
- Finalising the report.

4.3.8 Deliverable 9: Final report and closing event for Estonia


Countries involved: Estonia.




Objective

Finalising the project for Estonia and reflecting on the actual outcomes.

Activities to be undertaken:

 **Task 1: Preparing the Final Report**


- Preparing the final report that will consist of all deliverables, presentation, project public brief.

 **Task 2: Organising and holding the Closing Event**


- Presenting the final outcomes to the Beneficiary and relevant stakeholders.
- Preparing the communication materials.

4.3.9 Deliverable 10: Progress reports








Countries involved: Finland and Estonia.


 **Objective** Providing updates on the project progress to DG REFORM and the Beneficiaries.

Activities to be undertaken:

 **Task 1: Draft and submit a project progress report every six months**

- Drafting progress reports that will include:

- | | |
|---|---|
|  Traffic light system on schedule and scope of the project. |  Status of deliverables: summary table. |
|  1-page status overview following the ABCD model (Achievement, Benefits, Concerns and Done). |  Plan for the next period: key focus and list of activities already planned and to be scheduled. |
|  Timeline of deliverables: a diagram visualising milestones, dependencies and steps for the next months. |  Risks and related mitigation activities (table, including the probability and status of each risk). |
|  Brief content update: key lessons learnt, outputs and stakeholder feedback. | |

 **Task 2: Organising Steering Committee meetings and status updates**


















- Organising Steering Committee meetings with representatives of PwC, the Beneficiaries and DG REFORM












4.4 Project stakeholders

Numerous stakeholders are involved in the implementation of the Project. To successfully achieve the defined Project outcomes, we will focus on promoting close and mutually beneficial collaboration.

PwC will actively engage and consult representatives of the DG REFORM and the Beneficiaries about all Project outputs and activities while remaining ultimately accountable and responsible for their submission in accordance with the Request for Service.

Table 10. Project stakeholders RASCI matrix

Activity				
Steering Committee meetings	A/R	C/I	C/I	C/I
Project status-update meetings (separately for EE and FI)	A/R	C/I	C/I	C/I
D1: Inception Report	A/R	C/I 	C/I 	C/I 
D2: Technical report on international good practices on the design, structure, governance and implementation of spending reviews	A/R	C/I 	C/I 	C/I 
Task 1: Identifying the jurisdictions with the most relevant good practices	A/R	C/I	C/I	C/I
Task 2: Research on good practices	A/R	C/I	C/I	C/I
Task 3: Preparing the report on best practice countries study	A/R	C/I	C/I	C/I
Task 4: Organising a joint seminar on international good practices	A/R	C/I	S/C/I	S/C/I
D3: Technical reports with recommendations for a structured spending review process	A/R	C/I 	C/I 	C/I 
Task 1: Designing the to-be situation with the spending review process	A/R	C/I	C/I	C/I
Task 2: Perform Gap analysis	A/R	C/I	C/I	C/I
Task 3: Developing recommendations and policy options	A/R	C/I	C/I	C/I
Task 4: Drafting an analytical report on changes in the legislative framework in Estonia	A/R	C/I	I	C/I
Task 5: Producing technical report	A/R	C/I	C/I	C/I
D4: Manual for doing spending reviews in Estonia	A/R	C/I 	I	C/I 
Task 1: Developing a draft manual for spending reviews in Estonia	A/R	C/I	I	C/I
Task 2: Finalising the manual after feedback	A/R	C/I	I	C/I
D5: Joint seminar	A/R	C/I	S/C/I 	S/C/I 

D6: Final report, closing event for Finland	A/R	C/I 	C/I 	I
D7: Capacity-building workshops for Estonia (with Finland as observer)	A/R	C/I 	I	C/I 
Task 1: Designing the Training Programme: design the training programme, agree on participants, timeline, training materials, other sub-tasks	A/R	C/I	I	S/C/I
Task 2: Execution of Workshops/Training	A/R	C/I	I	S/C/I
D8: Facilitating pilot spending reviews on selected areas and facilitating workshops and seminars in Estonia	A/R	C/I 	I	C/I 
Task 1: Organising workshops and seminars to conduct the pilot spending reviews	A/R	C/I	I	S/C/I
Tasks 2-4: Finalise the report following input from DG REFORM, the Beneficiary Authorities, and the relevant stakeholders (incl. a summary report of capacity-building activities and recommendations in the future)	A/R	C/I	I	C/I
D9: Final report, closing event for Estonia	A/R	C/I 	I	C/I 
Task 1: Preparing a Final Report	A/R	C/I	I	C/I
Task 2: Organising a Closing Event	A/R	C/I	I	C/I
D10: Progress reports	A/R	C/I 	C/I 	C/I 
Drafting and submitting a project progress report every 6 months	A/R	C/I	C/I	C/I

RESPONSIBLE (R): Stakeholders who are ultimately responsible for getting the work done and responsible for action/implementation. Responsibility can be shared. The degree of responsibility is determined by the type “A” individual.

ACCOUNTABLE (A): Stakeholders who are ultimately answerable for the activity or decision. This includes “yes” or “no” authority and veto power. Only one “A” can be assigned to an action.

SUPPORT (S): Stakeholders who provide assistance to Responsible team members during the implementation of the activity.

CONSULTED (C): Stakeholders who are consulted prior to a final decision or action. This is a predetermined need for two-way communication. Input from the designated position is required.

INFORMED (I): Stakeholders who have some interest in the performance of a given task and who need to be informed after a decision or action is taken. They may be required to take action as a result of the outcome. It is a one-way communication.

 **DG REFORM and the Beneficiaries** are the authorities that ultimately approve (or not) the Deliverables.

4.4.1 Finland-specific stakeholders

In addition to the FI MoF, which is directly involved in the project, it is necessary to consider other important stakeholders. For this reason, the Project's stakeholders were divided into three groups: 1) Main responsibility; 2) Commitment & active contribution; and 3) Input & ideas. The results of the stakeholder mapping are depicted in Figure 16.

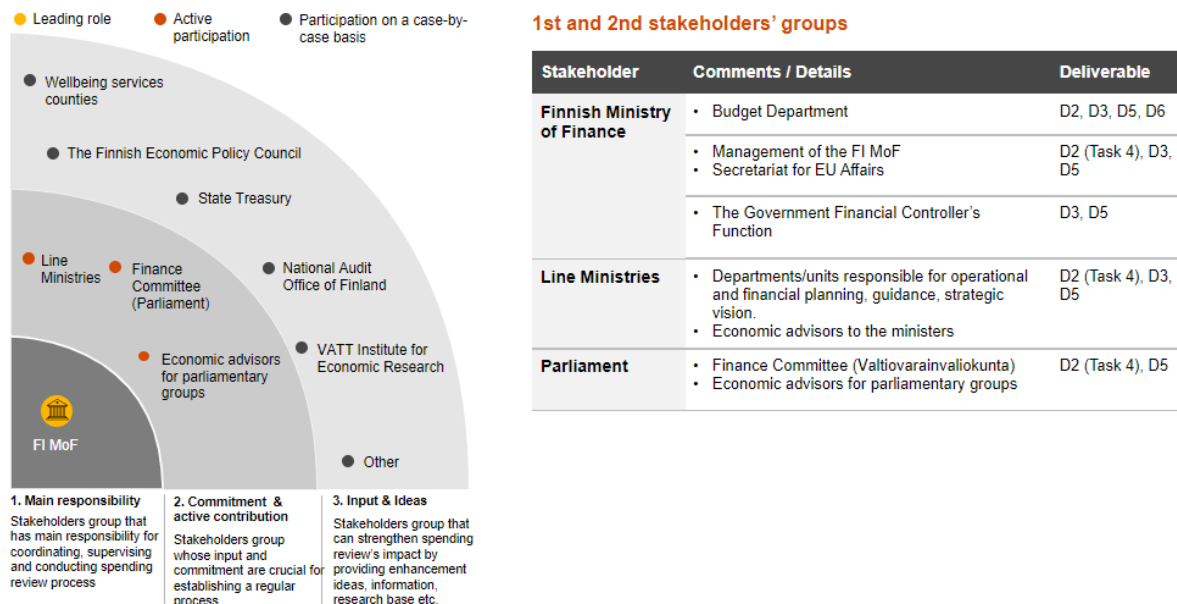


Figure 16. Stakeholder mapping, Finland

The first group contain FI MoF, more specifically the Budget Department, which is expected to take a leading role in conducting and supervising a regular spending review process. In order to ensure the feasibility of the recommendations (under D3), it is also important to keep other departments/units/key persons of the FI MoF in the information loop of the project (e.g. Secretariat for EU Affairs, Economic Policy Coordinator, etc.). The joint seminar on international good practices under D2 can be used to introduce spending reviews as an effective tool for securing the sustainability of public finances. Moreover, we plan to involve these stakeholders (e.g. through interviews and workshops) in creating and validating to-be-state alternatives under D3. The joint seminar under D5, in turn, will be used for presenting recommendations on how a structured process can be achieved as well as its concrete benefits, and gathering stakeholders' feedback on the recommendations.

The second group of stakeholders ("Commitment & active contribution") includes stakeholders whose input for designing the to-be state is of high importance and plays a great role in the recommendations' follow-up activities. Even though the FI MoF has a great knowledge of the **line ministries'** budgets and expenditures, line ministries' voluntary involvement in the process is crucial. Line ministries can contribute to generating ideas on saving measures or efficiency improvement and share the workload required for a spending review preparation.

In order to increase the knowledge base and commitment to spending review efforts in the future, joint seminars (under D2 and D5) can be also used to introduce spending reviews' benefits and use cases to the Parliament (e.g. Financial Committee, Economic Advisors for parliamentary groups, etc.).

Additionally, the perceived impartiality of the entity in charge has a significant role in the stakeholders' buy-in (e.g. line ministries). Hence, it is important to consider different options for Spending Review Steering Committee setup, when designing a to-be state.

The third group of stakeholders ("Input & Ideas") consist of stakeholders that should be considered when designing the to-be state of the spending review process. The specifics of involving the proposed stakeholders within different deliverables and tasks are to be discussed and agreed with the MoF.

The State Treasury is one of the sources of data for spending reviews. Consulting with this stakeholder might be beneficial when validating the to-be state.

In light of the rising expenditures of **wellbeing services counties** and the Government's commitment to improve their efficiency¹³⁴, the collaboration with this stakeholder for the to-be state should be further explored.

The Finnish Economic Policy Council is a research-based independent council that provides an evaluation of the objectives of economic policy and the effectiveness of the policy measures chosen. The Council published an annual report, evaluating recent economic policy decisions in February 2023.¹³⁵ The collaboration with this stakeholder might contribute to the outputs of the Project (i.e. recommendations under D3).

4.4.2 Estonia-specific stakeholders

The Estonia-specific stakeholders are mapped using the same approach as Finland. **The first group** contains EE MoF, more specifically the Budget Department, which is expected to take a leading role in conducting and supervising a regular spending review process. Other relevant departments/units/key persons (i.e. Budget Development Department) in the ministry should also be kept informed of the Project and involved in relevant activities to ensure successful spending review and evaluation integration to the medium-term budgeting process.

The second group includes stakeholders whose input for designing the to-be state is of high importance and plays a great role in the success of the to-be implementation. The line ministries are considered the main stakeholders providing information on the expectations of the to-be state, validating the manual for spending reviews, taking part in the joint seminar and capacity-building workshops/training. In addition to line ministries, the State Shared Service Centre (SSSC) and Government Office are also considered key stakeholders for specific deliverables and tasks. The SSSC has experience in conducting multiple spending reviews and can therefore provide relevant insights and recommendations for designing the to-be state. The Government Office is one of the main key stakeholders for the evaluations' topic and integrating different instruments with strategic planning. The specific stakeholders for the pilot spending reviews will be determined during the Project.

The stakeholders marked in **the third group** should be considered when designing the to-be state. The specifics of involving the proposed stakeholders within different deliverables and tasks are to be discussed and agreed upon with the MoF.

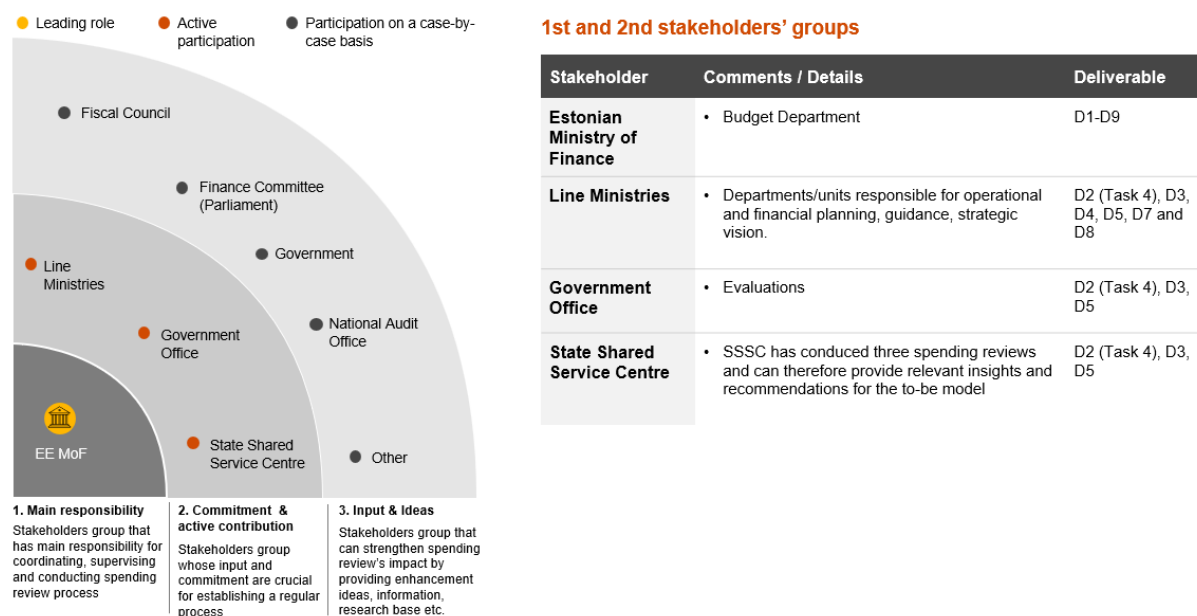


Figure 17. Stakeholder mapping, Estonia

¹³⁴ Programme of Prime Minister Petteri Orpo's Government 20 June 2023

<https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/165044/Programme-of-Prime-Minister-Petteri-Orpos-Government-20062023.pdf?sequence=4>

¹³⁵ 2023 report of the Economic Policy Council <https://talouspolitiikanarviointineuvosto.fi/wp-content/uploads/2023/02/Full-report-2022.pdf>

4.5 Project Steering Committee and composition of Project team

For purposes of overseeing the Project's progress, the **Project Steering Committee** is set up with the following responsibilities:

- Oversee the execution of the Project and provide strategic guidance.
- Make decisions on the Project's progress.
- Agree on steps to solve potential issues.

We present the composition of the Project Steering Committee below. Project Steering Committee members will invite additional participants when needed (based on the suggested agenda).

Table 11. Composition of the Project Steering Committee

DG REFORM	PwC	FI MoF	EE MoF
Simone Gelmetti & Päivi Valkama	Tarmo Meresmaa (EE), Jari Kärkkäinen & Juha Laitinen (FI)	Atro Andersson & Annaliina Kotilainen	Tanel Ross & Miryam Vahtra

The availability of all experts nominated in the proposal is confirmed. **Our Project team** includes 23 team members who will execute Project activities based on the assigned responsibilities. The composition of the Project team is presented in Figure 18.

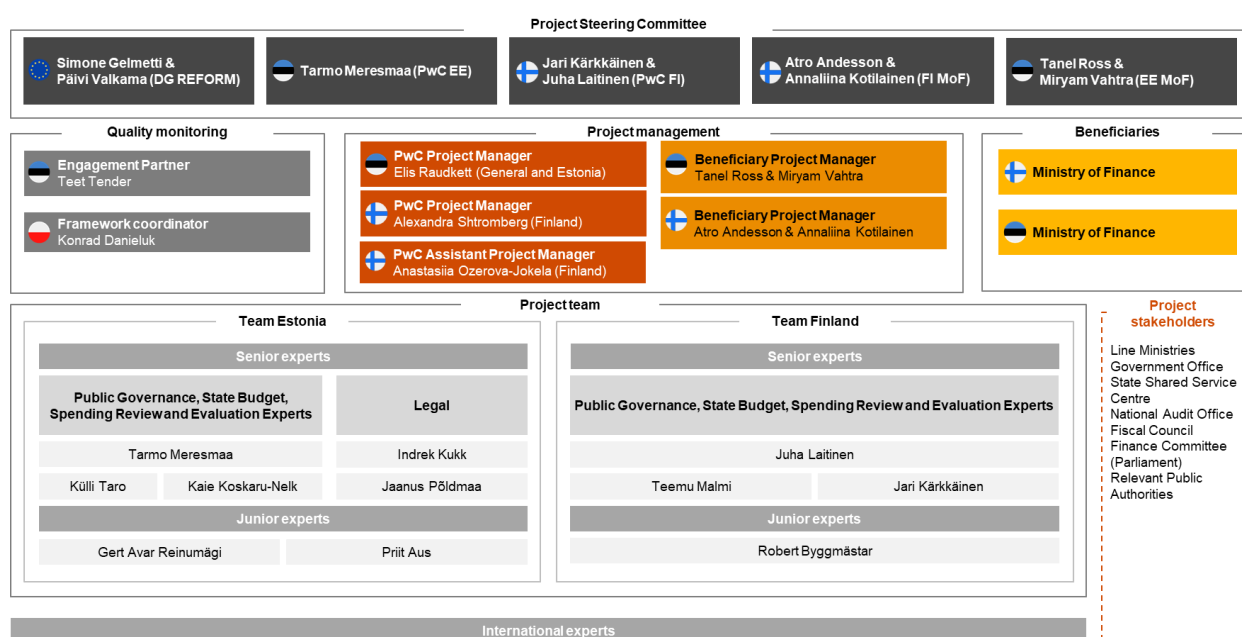


Figure 18. Composition of the Project team

4.6 Communication schedule

To ensure continuous collaboration and exchange of information, we have proposed and established the following monitoring and communication lines.

Table 12. Monitoring and communication lines

Meeting type	Meeting purpose	Participants	Frequency
All stakeholders meetings	Steering Committee meetings	DG REFORM, Beneficiaries, PwC	Monthly virtual meeting
PwC and the EE Beneficiary meetings	EE status update meetings	EE PwC, EE MoF	Every 2 weeks, on Tue, from 1 p.m. to 2 p.m. (EE time)

Meeting type	Meeting purpose	Participants	Frequency
PwC and the FI Beneficiary meetings	FI status update meetings	FI PwC, FI MoF	Monthly virtual meeting, on the first Thu of a month, from 10 a.m. to 11 a.m. (FI time)

4.7 Project risks and mitigation measures

For each risk identified as an obstacle to reaching a successful Project implementation, we propose specific and realistic mitigation actions so that they can be implemented in a timely manner.

Table 13. Project risks and mitigation measures

Risk description	Mitigation measure
Risks identified by PwC	
Conflicting stakeholder opinions	Creating and managing a stakeholder matrix: managing stakeholders according to their power to influence the project and level of interest in the project. Engaging and collecting opinions and feedback from relevant stakeholders. Using detailed project plans and regular progress checks for aligning expectations and raising any concerns early.
Lack of commitment from key stakeholders	Agreeing on the project time plan, deliverables and roles of respective stakeholders. Communicating the responsibilities and timelines for the stakeholders to provide background information and participate in collaboration sessions.
Uninterested good practice countries	Ensuring thorough selection of the jurisdictions and backup options, using PwC's global network of experts, formal communication channels, and contacts provided by the Beneficiaries and/or the EU Commission.
Failure to receive necessary information in due time or poor data quality	Submitting formal information requests by email with a detailed description of the type and format of data and desired timeline. Early warnings and continuous progress updates on the quality and quantity of data will ensure successful information/data collection.
Failure to leverage international good practices knowledge	Ensuring that the information and insights gained from desk research and one-on-one meetings with good practice countries' representatives in D2 are transferred into the implementation strategies and recommendations under D3. Conducting meetings with international institutions such as the IMF, OECD, EU Commission and/or World Bank to obtain the latest information on the frameworks and practices of spending reviews.
Failure in transferring knowledge to the Beneficiaries	Ensuring the feasibility of recommendations and implementation strategies across deliverables and by using the "train-the-trainer" model to transfer the knowledge. In other words, PwC trains Beneficiaries' experts on how to use project findings to continue spending review process development after the project completion.
Underestimation of costs and resources	Performing constant monitoring of PwC's internal hour bookings and Beneficiaries' workload to minimise any cases of unexpected costs or uneven workload distribution.
Situations preventing face-to-face meetings	We have a proven track record of conducting client-facing and internal design thinking, ideation and co-creation workshops using Mural or similar solutions, supported by document collaboration in SharePoint/Teams.
Misalignment with the regulatory and policy frameworks	The current regulatory and policy framework on spending reviews is limited, leaving room for new and updated provisions. We will ensure that our deliverables consider prospective future legal and policy frameworks.
Deliverables do not meet criteria in volume, timing or quality	PwC's Project Team's members are selected based on their specific expertise and merits in similar types of projects. The Quality team flags any quality issues early in the project. If needed, an Independent Review process can be introduced.

4.8 Progress monitoring indicators

The following quality control tasks will be performed during quality reviews coordinated by the project

managers:

- Reviewing and validating the completeness, appropriateness and quality of the deliverables.
- Determining whether the activities adhere to management controls and standards.
- Assessing whether risks and issues are managed in a proactive, timely and effectively.

The following **KPIs** will be used for assessing project quality:

General performance monitoring indicators	
Project plan feasibility	100% of deliverables completed on time during the reference period.
Feedback loop efficiency	100% of feedback points received from DG REFORM and beneficiaries.
Completeness of deliverables	100% of deliverables identified at the Inception are achieved.
Timing of staff replacement	(1) Senior experts proposed, replaced in less than 20 working days; (2) Junior experts proposed, replaced in less than ten working days.
Stakeholder engagement in the change planning	100% of key stakeholders identified in the inception phase are involved (through interviews, workshops).
Stakeholder feedback	95% of feedback received following stakeholder engagement activities have rating eight or more in 10-point scale.
Deliverable-specific performance monitoring indicators	
D2, D3. Quality of technical reports	<p>D2: The analysis includes the jurisdictions proposed, selection criteria and the results of desk research. The selection of jurisdictions is validated by Beneficiaries and DG REFORM ensuring efficiency of feedback. The results of the research are complemented and validated through one-on-one meetings with jurisdiction representatives.</p> <p>D3: The analysis compares the as-is situation with the to-be situation and provides clear and practical recommendations for designing and implementing a structured spending review process from operational, technological, organisational and legal perspectives. The analysis includes an assessment of strengths, weaknesses, problems, underlying causes and areas for improvement for each beneficiary's as-is situation. EU-wide considerations and policy goals are considered.</p>
D2, D5. Quality of joint seminars	Joint seminars present key results and practical examples from technical reports and manuals. Seminars allow for analysis of differences and common elements between beneficiaries' processes and wide sharing of insights with international partner attendees.
D2, D4, D8. Quality of implementation strategies	Implementation strategies and action plans provide clear guidance on how to implement the changes outlined in the Recommendations phase, using benchmarked change management techniques regarding the deliverables' requirements.
D3, D5, D7, D8. Quality of recommendations	Recommendations are presented as a series of tangible and practical steps that address the issues identified in Technical report and Manual phases, taking both Beneficiary Member States' national contexts into consideration.
D4. Quality of manual for conducting spending reviews in Estonia	The Manual serves as a practical tool for implementing the recommendations made in D3. For effective and complete implementation, realistic and specific steps, activities, timelines and main stakeholders should be included.
D7. Quality of capacity-building workshops	Effective capacity building and competence enhancement of the Beneficiary must be preceded by an analysis of training needs and skills gaps. The Deliverable will also include the developed training materials and curriculum recommendations to further support capacity building of the Beneficiary.
D8. Quality of workshops and report on facilitating pilot spending reviews in Estonia	The goal of the deliverable is to provide a basis for regular spending reviews. Therefore, the workshops and consequently the report should present clear and practical steps and recommendations for the implementation of the review process corresponding to the actual needs of the Beneficiary.

5. Appendixes

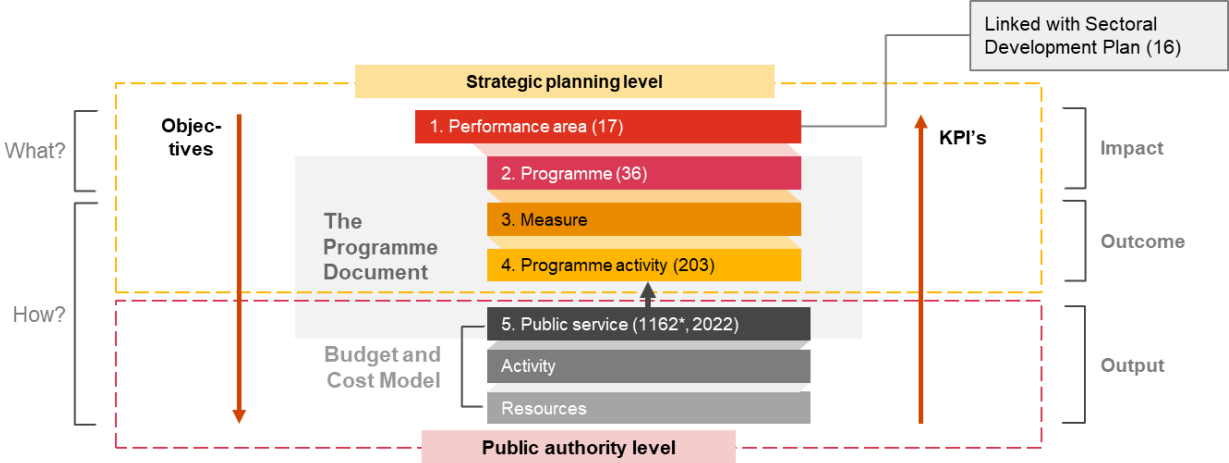
5.1 Kick-off meeting

Kick-off meeting presentation and notes attached as separate files.

5.2 Mapping of spending reviews conducted in Estonia

Good practice	Spending review			
	Procurement of cars (2017)	Enterprise, innovation (2018)	Consolidation of accounting services (2020)	Funding of museums (2022)
Definition of the problem	Yes	Yes	Yes	Yes
Background	Yes	Yes	Yes	Yes
Objective	Yes	Yes	Yes	Yes
The budgetary scope of the spending review	Yes	Yes	Yes	No
Methodology	Yes	Yes	Yes	Yes
Important deadlines	Yes	Yes	Yes	Yes
Spending review project timetable	No	No	No	No
Responsible parties for implementation	Yes	Yes	No	No
Impact assessment	Yes	Yes	Yes	No
Governance structure	Yes	No	No	No
The approximate savings target for the overall spending review	Yes	Yes	Yes	No
Reallocation options for the expected savings targets	No	No	Yes	No

5.4 Estonia performance-based budgeting methodology





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