

# Spending Reviews in Germany

## Highlights



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This document was produced with the financial assistance of the European Union. The views expressed herein can in no way be taken to reflect the official opinion of the European Union.

# Acknowledgements

This report was drafted by Álfrún Tryggvadóttir and Andrew Park from the Public Management and Budgeting Division, Public Governance Directorate, OECD, with inputs from Lucas van den Akker, consultant, under the supervision of Jón Blöndal, Head of Divisions, Public Management and Budgeting Division, OECD.

The outputs of the project were funded by the European Union via the Structural Reform Support Programme. The project was implemented by the OECD, in cooperation with the European Commission. The authors would like to express their gratitude to the European Commission for their support to this project, particularly to Iakovos Dimitriou (DG Reform), for his contributions during the implementation of the project.

The authors would like to extend sincere thanks to Rita Schutt, Karl-Heinz Noehrbass, Dr. Caterina Liesegang and Henrik Liss, all from the Federal Ministry of Finance in Germany, for their coordination and valuable inputs during the implementation of the project. The authors would also like to thank all other participants in meetings during the fact-finding mission and follow up meetings, for their valuable information and insights.

# Spending reviews in Germany

## Context

### ***Strong budgetary practices in place to support the implementation of spending reviews***

Germany's budget system is built upon a well-developed legal and administrative framework and is one of the leading OECD countries in its use of budgeting practices that complement spending reviews. This includes a comprehensive annual budget process, a strong medium-term budgeting framework and strong parliamentary engagement. Notably, the country has managed a “debt break” rule that has served as a budget rule for the overall budget and thus, indirectly also for the partial budgets of the line ministries.

This has been further enforced using top-down budgeting which sets clear budget ceilings to each line ministry. Importantly, the application of top-down budgeting has allowed greater flexibility for line ministries on planning the composition of spending within their allotted ceilings. Top-down budgeting is a great tool to keep an eye on aggregate expenditure but limited in improving the efficiency of public spending within expenditure ceilings, and as such, it works very well with a complementary tool such as spending reviews that is used to analyse baseline expenditure in a systematic way.

### ***The implementation of performance budgeting will reinforce spending reviews***

Germany is currently implementing performance budgeting to reinforce the outcome orientation of the budget. This will be an important addition to the spending review framework. This effort builds, among other things, on the work of spending reviews in strengthening the process of making the federal budget more outcome oriented.

There has been high-level political commitment to use the federal budget as a tool for target and impact-oriented budget management, as stated in 2021-2025 Coalition agreement (Coalition, 2021<sup>[1]</sup>). The spending review for the 2022-2024 cycle has identified ways to introduce and implement performance budgeting and budget tagging, building on the recommendations from the spending review on embedding sustainable development goals in the federal budget in the second last cycle.

The 12th spending review in progress for the cycle 2024-2025 is to take up the proposals developed in the last spending review for further improving performance-based budgeting and, where already possible, implement them in specific products or pilot them in suitable projects. For longer-term implementation tasks, detailed concepts and requirements should already be formulated and implementation initiated.

## The use of Spending Reviews in Germany

### ***Germany has been conducting spending reviews regularly***

Germany has served as a benchmark for other OECD countries in the development of the OECD Best Practices for Spending Reviews (Tryggvadottir, 2022<sup>[2]</sup>). Specifically, Germany holds many strengths in

the implementation of spending reviews such as having clear governance arrangements, strong leadership from the Ministry of Finance and close alignment of reviews to the budget process.

Spending reviews have been a regular annual exercise since its inception in 2015. To date, Germany has conducted 11 spending reviews on a variety of topics spanning from climate policy to improvements in administrative capabilities. This continuous application has helped to establish the reviews as a regular practice of budgeting. The spending reviews have been a joint exercise bringing together the Federal Ministry of Finance with one or more ministries on a focussed topic over the course of the fiscal year.

### ***The spending review framework incorporates many of the OECD Best Practices***

Spending reviews in Germany are built on a clear framework that involves high-level political commitment and leadership from the Federal Ministry of Finance. The reviews have aimed to improve the efficiency of public spending by understanding the stated purpose of a specific programme or policy (what are the aims of the revenues or expenditures?), whether public spending has achieved its stated objectives (to what extent are these objectives being achieved?), and the extent to which programmes are being delivered in an efficient manner in consideration of value-for-money (are they being achieved in a cost-effective manner?).

In line with the *OECD Best Practices for Spending Reviews*, Germany has set up governance arrangements that involve a steering committee comprised of senior officials at the state secretary level and a working group which comprises of officials from the Federal Ministry of Finance and other line ministries relevant to the spending review topic and chaired by the Director of the Budget Directorate in the Federal Ministry of Finance.

## **Recommendations to strengthen Spending Reviews in Germany**

Germany has laid solid foundations for spending reviews. There are, however, opportunities to further strengthen the review process and to make it a more relevant and widespread practice. Particularly in enhancing cooperation with line ministries, strengthening the monitoring process, and increasing awareness among politicians and civil servants about the benefits of spending reviews. Addressing these areas can further support the long-term sustainability of the process.

In context of the collaboration between the Ministry of Finance, the European Commission, and the OECD, five key recommendations to further strengthen spending reviews in Germany have been identified, as shown below.

### **OECD Recommendations to strengthen the spending review framework in Germany**

<b>OECD Recommendations</b>	
1.	Strengthen spending reviews to complement top-down budgeting by communicating the importance of improving the efficiency of spending within allotted ceilings, discussing spending reviews in context of requests for additional funding from ministries and including a savings target in the Terms of Reference
2.	Strengthen cooperation with line ministries by expanding the scope and elevating the prestige of spending reviews
3.	Create awareness around spending reviews and long-term sustainability for the process by strengthening political and civil servant awareness and improving presentation of findings and results
4.	Strengthen monitoring and follow-up processes by developing a clear implementation plan after spending review decisions are made and improving the "Comply and Explain Principle"
5.	Align spending reviews and performance budgeting efforts by using spending reviews to identify information gaps and using performance budgeting to identify inefficiencies in spending

## References

- Coalition (2021), *Coalition Agreement 2021 - 2025 between the Social Democratic Party of Germany (SPD), Alliance 90/The Greens and the Free Democrats (FDP)*. [1]
- Tryggvadottir, Á. (2022), "OECD Best Practices for Spending Reviews", *OECD Journal on Budgeting*, <https://doi.org/10.1787/90f9002c-en>. [2]