

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

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Deliverable 3 Report: Technical report with recommendations for a structured spending review process for Finland

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Executive Summary

Purpose of the report

The purpose of this report is to present the proposal for the to-be state for spending reviews in Finland and provide recommendations to achieve the to-be state. The to-be design was developed through a workshop, targeted interviews, and continuous discussions with the Finnish Ministry of Finance. Recommendations were tailored to Finland's specific needs and context, while also leveraging international best practices, especially regarding organisational structure and engaging line ministries. Two distinct workstreams were developed — targeted and comprehensive spending review processes — with customised organisational and operational recommendations to ensure efficient fulfilment of specific targets of each workstream.

Key recommendations

1. Establish a system of annual, targeted spending reviews, complemented by comprehensive spending reviews conducted every four years aligned with parliamentary elections. Targeted spending reviews focus on specific, predefined categories of spending, resulting in a more in-depth analysis of the chosen scope. Comprehensive spending reviews aim at a broader examination of general government finances as a whole.
2. Set clear objectives and targets for the spending review process, using either fiscal consolidation, reallocation of resources through efficiency gains or a combination of both.
3. Details of each spending review should be clarified in a Terms of Reference (a document where the objectives and other standard elements of the review process are described).
4. Implement four clear process stages for targeted spending reviews: 1) Preparation (topic selection process and organisational setup), 2) Analysis, 3) Decision-making, and 4) Implementation (of spending review recommendations). The process stages for comprehensive spending reviews should be: 1) Preparation, 2) Analysis, and 3) Presentation of findings.
5. Establish a clear governance structure for the new targeted spending reviews that effectively involves the Ministry of Finance, politicians, line ministries and external support from independent experts or consultants if needed. The recommended governance structure is as follows:
 - Political decision-making body – decides on the topics and Terms of Reference for the spending reviews in the beginning of the process and endorses the results of the spending review. We recommend the Ministerial Committee on Economic Policy for this role.
 - Steering committee – steers the process and provides strategic guidance to working groups, resolves disputes, and approves final outputs for submission to the decision-making body. We recommend that the Steering Committee may include senior-level officials from MoF, and advisably, relevant line ministries.
 - Working groups – conduct the analysis, develop policy proposals and draft the final reports. We recommend that the working groups consist of representatives from MoF and advisably line ministries, and that they can be supplemented by external consultants when necessary.
6. Line ministries should be involved in spending reviews. There are various means for motivating line ministries to participate, including a possibility of making topic proposals, funding flexibility, possibility of split recommendations, guiding them with templates and capacity-building. In addition, negative incentives could be considered to secure line ministries' involvement in the process.
7. Bringing in external experts within working groups to alleviate the workload of the MoF.
8. Integrating targeted spending reviews into the annual state budget process. This involves closely aligning the spending review process with the budget calendar.
9. Incorporating the concept of spending reviews in decree level regulation: amending the Government Decree on the Ministry of Finance (Valtioneuvoston asetus valtiovarainministeriöstä, 610/2003) in order to further institutionalise spending reviews in Finland.

List of Acronyms and Abbreviations

Word	Meaning
Beneficiary	Ministry of Finance of Finland
DGR	DG REFORM, Directorate-General for Structural Reform Support
EU	European Union
IMF	International Monetary Fund
MoF	Finnish Ministry of Finance
MTBF	Medium-Term Budget Framework
OECD	Organisation for Economic Co-operation and Development
PwC	PricewaterhouseCoopers
TSI	Technical Support Instrument

Glossary

Term in ENG	Definition	Term in FIN
Comprehensive spending review	Spending reviews that cover a large proportion of total government spending and are not limited to predefined review topics. They provide a holistic view of public expenditure across sectors.	Kattava menokartoitus
Permanent Secretaries	Permanent Secretaries are each Ministry's most senior public official. They direct, develop and monitor the work of their Ministry and activities falling within its branch of Government.	Kansliapäällikkö
Policy evaluation	Systematic and objective assessment of an ongoing or completed project, program, or policy. It provides valuable information for determining relevance, objective fulfilment, efficiency, effectiveness, impact, and sustainability. ¹	Vaikutusarviointi
Reallocation	In this context, the term refers to the decision to diminish the budget in a certain budget area and to use this to increase the budget in another budget area. This may be within the same ministry, or across different ministries. ²	Resurssien uudelleenallokointi
Special Advisors	Individuals appointed to advise government ministers on specific policy areas.	Poliittinen neuvonantaja
Spending review	A process of developing and adopting policy options by analysing the government's existing expenditure within defined areas, and linking these options to the budget process, with the purpose of, for example, improving effectiveness or policies.	Menokartoitus
Stakeholders	In this context, stakeholders refer to individuals, groups, or organisations that contribute, have an interest or are affected by the outcomes of the to-be spending review process. They may include line ministries, government agencies, politicians and others.	Sidosryhmä
Targeted spending review	Spending reviews that focus on specific, predefined categories of spending, resulting in a more in-depth analysis of the chosen scope. They might be conducted in the form of programme reviews, policy area reviews or government agency-specific reviews.	Kohdistettu menokartoitus
Terms of Reference	Document where the objectives and other standard elements of the spending review process are framed.	Työsuunnitelma
Topic selection	Process of identifying and selecting topics or focus areas for targeted spending reviews.	Aiheen valinta

¹ OECD. (2020.) Glossary for 2020 OECD Spending Review Survey. p.1
<https://www.oecd.org/governance/budgeting/2020-OECD-Spending-Review-Survey-Glossary.pdf>

² Ibid., p. 4.

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1. Introduction

Report structure

This report begins with an introduction to the Project, followed by a gap analysis to identify areas for improvement of spending review process. Then, we describe the needs and expectations for the design and delivery of spending reviews in the future. Following this, we present various recommendations for a future spending review framework (regarding both targeted and comprehensive spending reviews), covering organisational, operational, and legal aspects.

Project summary

The Project “*Integrating regular spending reviews and policy evaluations into the medium-term budget framework in Estonia and Finland*” aims to provide support to both Estonia and Finland in order to establish regular, more structured spending review processes. Well-established and structured spending reviews will increase the capacity of the Ministries of Finance of Estonia and Finland to ensure the sustainability of public finance and creation of additional fiscal space. The European Commission’s DG REFORM provides technical support to Estonia and Finland in this effort, while PwC has been contracted to conduct the study. The Project started on 2 October 2023, and the expected end date for Finland is October 2024, while for Estonia it is August 2025.

The anticipated outcome of this Project for Finland is an increased knowledge and evidence base for the MoF to design and implement a regular spending review process that is integrated with the existing annual budget framework. In the long-term, this outcome should contribute towards the increased ability of the MoF to establish well-functioning processes for conducting spending reviews and, through the use of structured spending reviews, increase their capacity to ensure the sustainability of public finances and the creation of additional fiscal space.

The Project team has first analysed the as-is situation and previous spending review efforts undertaken in Finland. Results of analysis regarding the operational, organisational, legal and technological perspectives can be found in **Deliverable 1: Inception Report**.³

After completion of Deliverable 1, the Project focused on in-depth analysis of international best practices on the design, structure, governance and implementation of spending reviews. Denmark, Ireland, Latvia, the Netherlands and the United Kingdom were selected as good practice countries based on their experience, spending review impact, clear governance and clear objectives. The detailed results of this best practice study are in **Deliverable 2: Technical report on international good practices on the design, structure, governance and implementation of spending reviews**.

³ PwC. (2024). Deliverable 1: Inception Report.

Deliverable 3 description

The objective of Deliverable 3 was designing the future state for the MoF, conducting gap analysis and providing SMART (Specific, Measurable, Achievable, Relevant and Time-bound) recommendations to support the MoF in reaching the to-be state. The deliverable involved the following tasks (Task 4 being not applicable for Finland):



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 5: Producing technical report that contains the designed to-be state, gap analysis results and recommendations on how to reach the to-be state, including strategies to motivate and engage stakeholders

Approach to formulating recommendations

The approach adopted in formulating recommendations for Deliverable 3 adhered to a structured methodology aimed at ensuring relevance, feasibility, and effectiveness. Key aspects of our approach included:

To-be Vision: Preparation of alternatives of the to-be state.

The Project team developed several different alternatives to achieve the to-be state.

To-be Vision: Consultation, Validation and to-be state development.

The to-be situation was developed further to ensure it was comparable to the current situation. This process included:

- One workshop (duration: two hours, conducted in March 2024, see Appendix 1): Conducted a workshop with key stakeholders from MoF to evaluate different alternatives of the to-be state.
- Targeted Interviews: Engaged in targeted interviews with the leadership of the budget department of the MoF.

- Evaluation: Project stakeholders evaluated different alternatives and provided input.

The approach also entailed tailoring the recommendations to the specific needs and context of Finland. These recommendations are highlighted in green boxes throughout the report. When formulating the recommendations, international best practices identified in the Deliverable 2 of the Project were leveraged. Best practices were especially relevant when developing recommendations regarding the organisational structure, ways of establishing line ministries' buy-in and motivating them to actively participate and engage in the process. Key points from the international best practices are highlighted in yellow boxes in this report.

Two distinct workstreams were developed – targeted and comprehensive spending review processes – each serving distinct purposes. Organisational and operational recommendations were customised accordingly to optimise effectiveness within each workstream.

Limitations of the analysis

It is important to acknowledge the limitations that have affected the recommendations. Time and workload constraints of the MoF limited the amount of workshops that could be conducted, which may have restricted the depth of understanding of stakeholder perspectives and requirements being considered in the formulation of recommendations. Therefore, while efforts were made to gather input and feedback through other means, such as targeted interviews and desk research, the lack of workshops may have impacted the breadth and richness of the data collected, subsequently influencing the scope and effectiveness of the recommendations provided.

2. High-level Gap Analysis

Table 1. Overview of key findings from the Gap Analysis.

Name of the gap	Short description of the gap impact
Irregularity of spending reviews	Ad-hoc spending reviews has constrained the government's capacity to proactively tackle fiscal challenges, potentially leading to missed opportunities for timely interventions and optimised resource allocation.
Absence of Formal Governance Model	Results in inefficiencies and confusion among stakeholders, hindering thorough and credible spending review efforts.
Lack of Line Ministry Engagement	Results in limited cooperation, motivation, and skill deficiencies among civil servants, which, in turn, impede their effective participation in spending reviews
Lack of Politician Engagement	Future targeted spending reviews may not meet political priorities without increased political engagement.
Limited integration with the annual State Budget process	Hinders the translation of insights and recommendations from spending reviews into concrete actions and budget allocations, diminishing their potential impact on government spending decisions.

Findings of the as-is analysis conducted in the Project show that previous spending reviews in Finland have traditionally lacked specific targets and comprehensive cost-effectiveness analysis. They often focused on descriptive assessments of significant sectors of spending within the public finances landscape.⁴ However, the Spending Review conducted in 2023⁵ marked a departure from this trend by presenting a well-defined scope and set of spending review objectives. This iteration of the review sought to identify potential cost-saving measures, aiming to enhance the overall financial health of the government.

Despite these advancements, **critical gaps persist, particularly concerning the frequency of spending reviews.** Historically, reviews have been conducted on an ad-hoc basis rather than following a structured, regularly scheduled interval. This irregular approach to conducting reviews has limited the government's ability to proactively address emerging fiscal challenges and capitalise on opportunities for improvement in a timely manner. Addressing these gaps is imperative to ensure the efficacy and relevance of future spending reviews. Establishing a structured and predictable schedule for conducting spending reviews will enable the government to systematically evaluate its fiscal policies and make informed decisions to optimise resource allocation.

⁴ PwC. (2024). Deliverable 1: Inception Report.

⁵ Ministry of Finance of Finland (2023). Julkisen talouden meno- ja rakennekartoitus. (Spending review 2023). https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/164695/VM_2023_13.pdf?sequence=1&isAllowed=y

Moreover, the **absence of a formalised governance model** represents another significant gap in the current as-is situation. While the Finnish Ministry of Finance (MoF) has taken the lead in conducting these reviews, there is **a lack of clear guidelines or structures for how the process should be governed**. This was not a significant issue when MoF conducted the reviews on their own. Once the spending review process is established, there is a risk of inefficiencies and confusion among stakeholders (such as line ministries) regarding their roles and responsibilities, if there is no clear governance model. Absence of a formalised governance model also affects the motivation of stakeholders other than MoF to contribute to spending review process and commit to its results. Establishing formal procedures to institutionalise stakeholder engagement, particularly with line ministries, is essential to enhance the credibility of spending review efforts.

There are critical gaps regarding the frequency, governance and stakeholder engagement.

There is **a lack of established procedures for engaging stakeholders**, particularly with line ministries. **Cooperation between MoF and line ministries is yet to be established and defined**. The preparation of the Spending Review 2015 did involve collaboration with line ministries, requiring them to input data on the utilisation of the state budget, which proved to be time-consuming and labour-intensive. In the latest review, in 2023, interviews with ministries' Permanent Secretaries were conducted to leverage their expertise in public spending initiatives, but they did not provide the same level of data as in 2015. Line ministries are reluctant to participate in spending review efforts, which may stem from a lack of motivation among line ministries, compounded by limited human resources available for the process.⁶ Consequently, line ministries lack experience with spending reviews.

Previous spending reviews have predominantly been MoF-centric exercises, conducted prior to elections to serve the upcoming parliamentary term. These exercises have been independent from political involvement. However, for the planned targeted spending reviews, **an absence of meaningful political engagement** might limit the buy-in and ownership of the spending reviews among policymakers and elected officials. As a result, the potential impact of the targeted reviews on policy decision-making and public perception may be constrained in the future. Moving forward, there is a pressing need to bridge this gap and ensure greater engagement from politicians in targeted spending review efforts to enhance their effectiveness and relevance.

A gap has also been identified when comparing the existing set up to the objectives of the future targeted spending review process. An important aim is integration with the annual budgeting process. Previous spending reviews have been conducted before parliamentary elections, strategically timed to support negotiating the Government programme that guides budgets for the entire term. According to international best practice, integrating spending reviews with the annual state budgeting process is important. Without strong integration, the insights and recommendations generated through the spending reviews may not be effectively translated into concrete actions and budget allocations, thus limiting their overall influence on government spending decisions. **For these reasons, Finland should ensure that the planned targeted spending reviews are strongly integrated with the annual state budgeting process.**

⁶ PwC. (2024). Deliverable 1: Inception Report.

3. Needs and expectations of the design and delivery of spending reviews

The needs and expectations of the MoF regarding the design and delivery of spending reviews were as follows:

> **Enhancing the scope and the frequency of spending reviews in Finland**

The MoF expressed interest in conducting more frequent, focused spending reviews. This approach aims to introduce lighter, targeted spending reviews alongside less frequent, comprehensive ones with broader coverage, ensuring flexibility to address evolving fiscal conditions more effectively.

> **Agile workload management**

To enhance efficiency, the MoF sought to have agile workload management, allowing for flexible task distribution and quick responses to emerging issues.

> **Light organisation structure**

The MoF wished for simplified organisational structures to reduce bureaucracy and expedite decision-making.

> **Improving line ministry involvement**

Strategies to motivate line ministries are essential. Recommendations concerning buy-in are mostly needed for line ministries as political interest and buy-in for spending reviews are currently strong.

> **Linking Spending Reviews to Annual and Medium-Term Frameworks**

Integrating spending reviews with annual and medium-term budgetary frameworks ensures consistency and alignment with broader fiscal strategies, promoting long-term sustainability.

> **Agreed scope excludes implementation of the Project Recommendations**

The agreed scope of the Project is to build MoF's knowledge and evidence base. The scope does not include implementation of the Project's recommendations. It was agreed that the MoF will not be making concrete decisions regarding the implementation of to-be state of the spending review process during the project. In light of this, detailed implementation plans were not developed for the MoF.

4. Recommendations

4.1. Introduction to the Recommendations

This section outlines the key recommendations for enhancing the spending review process. It provides a comprehensive overview of the proposed framework, organisational structure, process, integration with budgeting frameworks, and regulatory considerations. We begin by discussing the general spending review

framework, focusing on the frequency and scope of reviews and their objectives. Next, we delve into the recommended organisational structure, detailing the roles and responsibilities associated with conducting targeted and comprehensive spending reviews. Following this, we outline the spending review process itself, providing general considerations and specific recommended processes for both types of reviews. Finally, we address the integration of spending reviews with the annual and medium-term budget frameworks, and conclude with regulatory recommendations to ensure the effective use of the spending review instrument in the long term.

4.2. General spending review framework

4.2.1. Frequency and scope

Recommendation 1. Establish a system of annual, targeted spending reviews, complemented by comprehensive spending reviews conducted every four years.

Targeted spending reviews focus on specific, predefined categories of spending, resulting in a more in-depth analysis of the chosen scope. Comprehensive spending reviews aim at a broad examination of general government finances as a whole.

We recommend that Finland establish a dual framework for conducting spending reviews to ensure effective oversight of public expenditure. This framework would consist of **annual, targeted spending reviews** aimed at addressing immediate budgetary challenges and **comprehensive reviews** conducted every four years to undertake a thorough analysis of broader fiscal concerns.

The use of **annual targeted reviews** (FI: *kohdennettu menokartoitus*) would provide a mechanism for ongoing evaluation of key areas of government spending, allowing for timely adjustments and reallocation of resources as needed. These reviews could be tailored to address specific budgetary issues and policy priorities, ensuring that government spending remains aligned with the strategic objectives.

In addition, conducting **comprehensive reviews every four years** (FI: *kattava menokartoitus*) will offer the opportunity for a full examination of overall fiscal policies and long-term budgetary trends. By examining expenditure patterns and revenue projections over an extended timeframe, these reviews can help identify emerging fiscal risks and opportunities for enhancing fiscal sustainability. Furthermore, the four-year cycle should be **aligned with parliamentary election timelines**, allowing for comprehensive fiscal assessments to be conducted prior to the Finnish parliamentary elections. The results of the comprehensive spending review would serve as input to the parliamentary election platforms for political parties, to the negotiations on the Government Programme and otherwise serve the upcoming parliamentary term. This approach would ensure that politicians have access to up-to-date fiscal information when making critical budgetary decisions for the next term, fostering greater accountability and transparency in the medium-term budgeting process. This would mirror the previous model employed in Finland's Spending Review 2023.

This combination of targeted and comprehensive spending reviews has proven successful in the Netherlands. The Dutch approach effectively utilises targeted spending reviews to address specific societal and financial challenges, while comprehensive spending reviews are employed to generate significant savings

during global financial crises. This dual strategy allows the Netherlands to tackle both broad fiscal issues and detailed policy inefficiencies, setting a robust example of balanced and effective spending review practices.⁷

4.2.2. Objectives

Recommendation 2. Set clear objectives and targets for the spending review process, using either fiscal consolidation, reallocation of resources through efficiency gains or a combination of both.

To ensure the effectiveness and success of spending reviews, it is imperative to establish clear and well-defined objectives. These objectives serve as guiding principles, helping to shape the scope, focus, and outcomes of the spending review process. For Finland, this means aligning spending review objectives with the country's unique economic, social, and political context.

Given Finland is currently experiencing high budget deficits, a key near-term objective would be **fiscal consolidation**, where the aim is to identify avenues for cost savings, eliminate wasteful practices, and revenue optimisations to address budget deficits. The expected outcome is savings, limiting expenditure or the scale of its increase. This could, for example, involve setting 10% or EUR 10 million savings targets. Efficiency improvements for **reallocation of resources** could be another objective; aiming to enhance budgetary efficiency to reallocate resources to priority areas and optimise service utilisation for increased output and impact. Here, the expected outcome is improved efficiency or effectiveness of government spending.

In the long term, Finland should maintain flexibility in defining the objectives of spending reviews, recognising that they can serve one or the other, or both, objectives depending on the prevailing economic, social, and political context. However, it is important to keep in mind that introducing spending reviews may be more challenging when the objective of the reviews is to reduce overall spending within specific areas, instead of reallocation. One of the primary challenges of implementing spending reviews with a cost reduction objective is the potential resistance from line ministries who may perceive budget cuts as detrimental to their interests or the constituents they serve. Overcoming this resistance requires the support of politicians and a transparent decision-making process. It will help to build consensus and mitigate concerns from line ministries.

Recommendation 3. The objectives, scope, methodology, deliverables organisational set up, and timeline for each spending review should be formalised through a Terms of Reference (ToR).

A clear Terms of Reference will serve as a roadmap for the spending review process, guiding stakeholders towards meaningful and impactful outcomes. In targeted spending reviews, the preparation of the ToR would be led by MoF and it would be first approved by the Steering Committee and then the Ministerial Committee on Economic Policy (see Figure 1 for the organisational model for targeted spending reviews).

⁷ See PwC. (2024). Deliverable 2 Report: Technical report on international good practices on the design, structure, governance and implementation of spending reviews.

Preparing the Terms of Reference: The MoF should formalise the topic, objectives, scope, methodology, deliverables, and timeline for each spending review through a **ToR**.

A ToR will provide clarity, guidance, and most importantly alignment among all stakeholders, including political leaders, the MoF, line ministries, and other relevant parties. The ToR should clearly define the scope of the review to avoid ambiguity and ensure that all pertinent areas are adequately addressed. This includes specifying what aspects of the sector's expenditure, for example, will be included in the review, thereby ensuring a focused and effective assessment. In targeted spending reviews, the Steering Committee should discuss and approve the ToR, and ultimately it should be approved by the Ministerial Committee on Economic Policy.

Moreover, it would be beneficial to incorporate a **savings target within the ToR**. A savings target would offer a clear goal for the review process and help prevent line ministries from proposing non-consolidating findings. In targeted spending reviews, the savings target should be approved by the Steering Committee and preferably ultimately by the political decision-making body, to ensure that the review objectives are aligned with government priorities and goals.⁸ Savings targets consist of an aggregated savings target, and individual targets or estimates for each individual spending review (for both targeted and comprehensive spending reviews).

The estimation of savings targets for individual spending reviews should be tailored to the unique characteristics of each review, resulting in potentially significant variations in targets both across reviews and over time.

4.3. Organisational structure and recommended roles

4.3.1. Recommended organisational structure for targeted spending reviews

Recommendation 4. We recommend that the organisational structure of targeted spending reviews should encompass the following organisational elements:

- 1. Ministerial Committee on Economic Policy as political decision-making body** to approve the topics, scopes, objectives, and other process elements through a Terms of Reference at the beginning of the process and endorse the recommendations upon the conclusion of the review process.
- 2. Steering Committee** to provide strategic guidance to review teams, resolve disputes, and approve topics and final outputs for submission to the decision-making body. Consists of MoF and advisably relevant line ministry representatives.
- 3. Working groups** responsible for conducting the technical work of the spending reviews, including analysis, policy proposal development, and drafting final reports. Consists of MoF representatives and advisably also representatives from the line ministries.

The recommended organisational structure is depicted in the following Figure 1.

⁸ Based on the D2 knowledge sharing sessions with OECD, 15 March 2024.



Figure 1. Recommended organisational structure for targeted spending reviews.

Political decision-making body. In the Finnish context, we recommend the Ministerial Committee on Economic Policy (FI: *talouspoliittinen ministerivaliokunta*) to be the political decision-maker. Comprising the Prime Minister, Minister of Finance and other government ministers with senior experts from the MoF involved, this Committee oversees significant decisions related to economic planning, fiscal policy, and resource allocation.⁹ Therefore, the Committee would be well-suited to serve as the political decision-making body in the spending review process.

The Steering Committee. For the targeted spending reviews, we recommend designating a single Steering Committee to oversee all spending reviews within a budget cycle. This promotes more consistency and coherence in the oversight process, ensuring that all spending reviews adhere to the same standards and procedures. It prevents the potential fragmentation that could arise from having separate steering committees for each review process.

The Steering Committee should be of a moderate size, consisting of senior staff from relevant departments within the Ministry of Finance and the line ministries involved in the targeted spending review. The representative from the line ministries may be the **Ministry's Permanent Secretary** (FI: *kansliapäällikkö*) or someone appointed by the respective Ministry's Permanent Secretary. Permanent Secretaries are each ministry's most senior public official who assists the Minister in directing, developing, and monitoring the work of the corresponding ministry and the agencies within its branch of government.¹⁰

It is suggested that line ministry representatives in the Steering Committee should not be given veto rights. The primary purpose of their presence in the Steering Committee is not to exercise control but to foster collaboration between the MoF and line ministries. It is also to establish legitimacy for and understanding of proposed spending changes. This approach could offer a variety of perspectives while maintaining efficiency in decision-making. However, flexibility should be allowed for the participation of line ministries in committee meetings based on the relevance of spending reviews to their respective budget areas. For instance, in a targeted spending review focusing on defence spending, officials from the Ministry of Defence should participate in the Steering Committee.

⁹ Finnish Government. (2023). Ministerivaliokunnat ja -työryhmät. <https://valtioneuvosto.fi/hallitukset/ministerivaliokunnat-ja-tyoryhmat>

¹⁰ See FI MoF. (n.d.) Senior management. <https://vm.fi/en/senior-management>

A representative from the MoF could chair the Steering Committee. Given that the ultimate goal is to align spending reviews with budgeting processes, and considering the MoF's central role in budgeting, having an MoF representative chairing the Steering Committee would be a logical choice. When selecting the chair to lead the Steering Committee, sufficient expertise within spending review methodology, impartiality, communication skills and absence of potential conflicts of interest should be ensured.¹¹

The working groups should be non-political and consist of civil servant level experts. The working groups composition for targeted spending reviews can vary by topic. It would be beneficial to include analysts from both MoF and the relevant line ministries to ensure sufficient representation and collaboration. The members of these groups should possess the capabilities to conduct in-depth analysis and prepare policy options within the defined target savings, as well as provide qualitative recommendations to enhance efficiency and effectiveness. Additionally, in cases where specialised expertise is required for certain targeted spending reviews, external consultants should be brought in to support the working groups. The working groups can be divided further into project groups when necessary to handle more narrowly specified tasks.

Based on international best practices, **it is recommended that working group members avoid vetoing each other's ideas.**¹² This fosters an environment of collaboration. Each member can freely contribute their perspectives and proposals without fear of immediate dismissal. This encourages creative thinking and allows for the exploration of a wider range of potential solutions to the issues at hand. This also guarantees that the Steering Committee and the political decision-making body are presented with a variety of alternative policy options.

MoF's role in the organisational structure includes overseeing the entire targeted spending review process, with certain MoF staff assigned to coordinate the process. They would, for example, lead and organise the topic selection process, facilitating the inter-ministerial collaboration within the different organisational layers (Steering Committee and working groups and managing the overall timeline.

4.3.2. Recommended organisational structure for comprehensive spending reviews

The recommended organisational structure for comprehensive spending reviews is depicted in the following Figure 2:

¹¹ See also the governance structure in Norway: Tryggvadottir, Á. (2022). OECD Best Practices for Spending Reviews. OECD Journal on Budgeting, vol. 22/1, pp.6.

¹² See PwC. (2024). Deliverable 2 Report: Technical report on international good practices on the design, structure, governance and implementation of spending reviews.



Figure 2. Organisational structure for comprehensive spending reviews

The organisational structure is designed based on Finland’s successful model in the Spending review 2023, which emphasises the MoF’s central position with minimal organisational layers. In this structure, MoF assumes a pivotal role throughout the whole process, overseeing and coordinating the process and potential input of stakeholders as well as analysing and developing policy options.

At the political level, major political parties represented in the Parliament may negotiate and ultimately make decisions on the Government Programme using the findings of the comprehensive spending review.

At the project level, multiple working groups would be established, each focusing on a relevant administrative sector, such as education, healthcare, and more. The composition of these working groups may vary depending on the specific sector being reviewed, allowing for flexible and tailored involvement of line ministries. Their possible participation would provide in-depth sectoral insights and expertise, ensuring that diverse perspectives are integrated into the review process. Although minimising line ministries’ involvement in certain cases may help mitigate potential conflicts of interest or biases that might arise from their direct involvement and potentially cutting their own budgets. Thus, MoF staff may participate either solely or with relevant line ministries in each working group, depending on the topic and circumstances.

To further improve the quality of the review, independent experts and external stakeholders may be brought in to support the MoF in conducting analysis of the comprehensive spending review. Their participation would provide additional expertise and ensure that the analysis is thorough and objective, especially if the MoF’s resources are limited. Independent experts and external stakeholders would increase the capacity of the MoF.

The MoF staff assigned to coordinate the comprehensive spending review will manage activities of the working groups and be responsible for consolidating the findings from the working groups into a unified report, which will serve as the foundation for political decision-making.

4.3.3. Recommended roles and responsibilities

Recommended involvement of politicians.

Political commitment in the overall spending review process is crucial. Involvement of politicians is necessary for the implementation of review findings, both targeted and comprehensive. Without political buy-in, the likelihood of implementing the results is limited.¹³

For targeted spending reviews, political engagement is necessary at the beginning of the process (topic selection, ToR) and at the final stage of the process (decision-making on spending review measures and implementation). For comprehensive spending reviews, political involvement takes on a different dynamic. Politicians will not be involved until after the review is completed and parliamentary elections have ended. At that point, the comprehensive review provides critical input for political parties during government formation talks. Politicians should then use these findings to inform their decisions, deciding whether to integrate spending review findings into the Government Programme and how.

Recommended role of Ministry of Finance.

The MoF is positioned to play a pivotal role both in targeted and comprehensive spending reviews. The MoF, especially its Budget Department, should take the lead in coordinating and overseeing the processes, ensuring alignment across government. Leveraging its expertise in fiscal matters, the Ministry can contribute to the development of guidelines that govern the conduct of spending reviews. This involves preparing a Terms of Reference for each review that serves as a guide regarding objectives, methodologies, organisational set up among other things to ensure effective review outcomes.

For comprehensive spending reviews, MoF's role entails conducting analysis and developing policy options. For targeted spending reviews, MoF's role is broader, with greater focus on coordination and oversight: the MoF should take a leading role in topic selection and be involved in every step of the process. Additionally, having MoF officials as part of the Steering Committee, with a MoF representative chairing it, enhances oversight and decision-making. Their expertise in technical knowledge, policy analysis, and strategic guidance ensures alignment with government objectives and fiscal strategies.

Recommended role of line ministries.

It is recommended that line ministries take an active role in the spending review process, especially for targeted spending reviews. While MoF possesses knowledge of the line ministries' budgets and expenditures, the voluntary involvement of line ministries is crucial for the success of the targeted spending reviews. Line ministries should play a vital role in generating ideas for saving measures or efficiency improvements, drawing on their in-depth understanding of their respective sectors and programmes. Their participation is essential for sharing the workload required for the preparation and carrying out a targeted spending review.

In comprehensive spending reviews, the involvement of line ministries varies and may be minimal or dependent on the sector. In targeted spending reviews, line ministries

¹³ Tryggvadottir, Á. (2022.), "OECD Best Practices for Spending Reviews", OECD Journal on Budgeting, vol. 22/1; Doherty, L., & Sayegh, A. (2022). How to Design and Institutionalize Spending Reviews. IMF How To Notes, 2022/004.

should be involved in the Steering Committee as well as the working groups. Participation in the Steering Committee provides line ministries with a platform to contribute to high-level decision-making and strategic direction-setting for the spending review. Furthermore, involvement in working groups allows line ministries to engage more directly in the detailed analysis, data gathering, and evaluation activities that underpin the spending review process. This would help distribute the workload more evenly and bring in more insights into identifying the most suitable individuals to invite to meetings and other related tasks.

Moreover, line ministries should be responsible for the implementation of the finalised targeted spending review findings, which includes integrating the approved spending review recommendations into their budgeting proposals. Following international best practices, this approach ensures that the expertise and operational insights of line ministries are leveraged to effectively translate the recommendations into practical budgeting plans and actions. By entrusting line ministries with implementation of findings, the government can foster a culture of accountability and ownership within each ministry. In its turn, it will promote a more efficient and targeted approach to achieving the desired outcomes of the spending review process.

Strategies to motivate line ministries

Recommendation 5. Line ministries should be involved in spending reviews. Various means for motivating line ministries to participate exists, including a possibility of making topic proposals, funding flexibility, possibility of split recommendations, guiding them with templates and capacity-building. In addition, negative incentives could also be considered to secure line ministries involvement in the process.

These means aim to foster ownership among line ministries, instil confidence in their capabilities to contribute to the review process, and provide them with the necessary guidance and resources to effectively engage in the reviews. By offering these incentives, line ministries are more likely to perceive the spending review process as collaborative and beneficial, thereby enhancing their motivation and commitment to actively contribute to the reviews.

To motivate line ministries to participate in the spending review process, Finland can adopt one or more of the following strategies used in other EU countries:



Option 1: Possibility to participate in making topic proposals and engage in discussions with MoF on what is prioritised for the respective year.

By integrating line ministries into the early phases of the spending review process and allowing them to play an active role in proposing topics, collaboration and buy-in is encouraged. This approach combined with participation in working groups and Steering Committee cultivates a sense of ownership, fostering cooperation and mutual understanding.



Option 2: Allowing the respective line ministry the opportunity to retain some or all savings identified during the review.

Building on successful experiences of Denmark, where this approach has been implemented¹⁴, the opportunity for line ministries to retain savings serves as a powerful incentive for their active engagement in the spending review process.

Denmark has a long practice of being flexible with the Terms of Reference, leaving it open whether the relevant ministry keeps the money from the savings identified in the review. This practice has motivated ministries to become more involved in the spending review process and to proactively seek out more efficient methods of service delivery. Line ministries in Denmark have gained a sense of ownership over the outcomes of the spending review process, fostering a heightened sense of accountability. This model not only promotes financial prudence but also encourages a culture of continuous improvement within the ministries. Thus, we recommend maintaining flexibility with the Terms of Reference, to allow for consideration regarding whether the ministry involved in the review retains part or all funds saved.



Option 3: Split recommendations: Allowing line ministries to present their own recommendations.

The possibility of allowing the line ministries to present their own recommendations in the working groups in the event of disagreements between the MoF and line ministries would help to enhance the effectiveness and inclusivity of the spending review process. Empowering line ministries to present their recommendations acknowledges their unique expertise and perspectives on their respective areas of responsibility, as proven in Denmark. This encourages ministries to actively participate in the spending review process, as they have a stake in shaping the outcomes and ensuring that budgetary decisions align with their strategic objectives and operational needs.

This option would necessitate that in targeted spending reviews the Ministerial Committee on Economic Policy decides which recommendations to endorse. The Ministerial Committee would need to discuss and approve the recommendations when the analytical work is completed. In comprehensive spending reviews, the political parties participating in government formation talks decides which recommendations to endorse. This ensures that decisions are made in a transparent and politically informed manner, balancing the interests of different ministries and promoting consensus-building.



Option 4: MoF provides templates for line ministries to fill.

Introducing templates for line ministries to fill, as observed in countries like Ireland and the UK, serves as a valuable way for line ministries to become more actively engaged

¹⁴ See PwC. (2024). Deliverable 2 Report: Technical report on international good practices on the design, structure, governance and implementation of spending reviews.

in the spending review process and make the process less resource consuming. These templates provide structured and standardised formats for ministries to outline their budgetary proposals, priorities, and justifications.

Templates offer clear guidance and consistency in the information required from line ministries, ensuring that all ministries provide relevant and comparable data. This facilitates easier evaluation of the results by the Steering Committee. Moreover, templates streamline the submission process for line ministries, reducing administrative burden and ensuring that proposals are submitted in a timely manner. This enhances efficiency and enables smoother coordination of the spending review process.



Option 5: Capacity Building Support from MoF to line ministries.

The MoF could also explore the option of investing in tailored capacity-building support for line ministries to boost their capabilities and confidence to effectively participate in spending reviews. This capacity-building initiative should aim to equip ministry staff with analytical skills for data analysis, technical proficiency with financial software and visualisation tools, policy understanding to grasp legislative implications, and effective communication and negotiation skills to build trust and secure buy-in from line ministries.

It is important to acknowledge that this type of capacity building requires a significant investment of resources. The MoF would need to allocate funds and / or personnel time, to develop and implement these capacity-building initiatives. However, this investment should be offset by the savings generated from the spending reviews.



Option 6: Incentives.

While collaborative methods are preferred to encourage line ministries to become involved in spending reviews, Finnish line ministries often exhibit a defensive stance toward their budgets, hesitating to engage in further spending assessments due to concerns about potential budget reductions. Hence, it may be necessary to explore negative incentives to motivate ministries to participate in spending reviews. For example, one consequence for unwillingness to participate could be **reduction in budget allocation**. Alternatively, **discretionary funds allocated to line ministries could be frozen**.

Recommended involvement of external consultants

Recommendation 6. Finland should consider using external help during the spending review.

By outsourcing certain aspects of the spending review process to external experts or consultants, Finland can alleviate the workload burden on MoF staff and address capacity constraints within ministries. Their role would be limited to the working group level, assisting with analysis and contributing to the development of actionable recommendations.

Drawing on international best practices, integrating external consultants' expertise into spending reviews can substantially elevate analysis quality and evenly distribute workload. External consultants offer specialised knowledge and fresh perspectives, enhancing analysis depth and quality. Countries like Denmark have successfully leveraged external expertise to enhance spending review processes. Thus, we recommend the MoF consider engaging them in targeted spending reviews, particularly for complex areas needing specific expertise. However, their role should be defined and limited, focusing on assisting in stage 2 at the working group level, primarily in analysis and development of actionable recommendations. This involvement ensures efficient use of external expertise while maintaining internal oversight and ownership.

4.4. Spending Review Process

4.4.1. General process considerations

As we recommend a dual framework for spending reviews – annual targeted spending reviews and comprehensive spending review every four years – two distinct work streams were developed. The targeted spending review, a new initiative for Finland, is a newly developed process that aligns with the objectives of targeted reviews, ensuring they effectively identify and address specific areas of spending that require scrutiny. In contrast, the process for the comprehensive spending review is built upon the framework used in Finland's 2023 Spending Review, ensuring continuity and leveraging proven approaches.

4.4.2. Recommended Process for Targeted Spending Reviews

Overview and key stages of the Recommended Targeted Spending Review process

Based on international best practices and the expertise of the OECD and IMF, we recommend the following process structure for targeted spending reviews:

Table 2. Overview of the targeted spending review process.

Stage	Steps	Responsibility
Stage 1 Preparation	<ul style="list-style-type: none">• Identification of topics• Preparation of ToR and topic proposal• Review of topics by the Steering Committee• Discussion with Special Advisors	<ul style="list-style-type: none">• MoF and line ministries• Political level

Stage	Steps	Responsibility
	<ul style="list-style-type: none"> Review of topics and ToR by the Ministerial Committee on Economic Policy 	
Stage 2 Analysis	<ul style="list-style-type: none"> Analysis and development of policy options by working groups Finalisation of findings and Preparation of the SR report 	<ul style="list-style-type: none"> Working groups (MoF, line ministries)
Stage 3 Decision-making	<ul style="list-style-type: none"> Review of findings by the Steering Committee Discussion with Special Advisors Decision-making of the Ministerial Committee Publication and communication 	<ul style="list-style-type: none"> Working groups Political level
Stage 4 Implementation	<ul style="list-style-type: none"> Preparation of draft budget using findings of the spending reviews Monitoring of implementation Budget cycle continues utilising SR findings 	<ul style="list-style-type: none"> Line ministries MoF

We recommend structuring the process into four distinct stages: Preparation, Analysis, Decision-making and Implementation. Each stage of the process consists of specific steps or actions essential to its completion. A proposal for a business process map for targeted spending reviews can be found in Appendix 2, where each stage is highlighted and the responsibilities for each step are clearly presented.

In the next four sections, we will describe in more detail each stage of the process. For each stage, we will provide key considerations and outline the concrete necessary steps.

Stage 1: Preparation

Topic selection. Finland should consider initiating its spending review process first with targeted reviews, focusing on for example 2-5 topics or areas per year. This approach allows both the Ministry of Finance and line ministries to build capacities and expertise gradually, ensuring readiness to conduct more spending reviews in the future. As proficiency grows, the number of topics addressed per year can gradually increase over time. It will allow for a manageable pace of expansion while ensuring thorough analysis and implementation.

During the first years of conducting spending reviews regularly, the selection of spending review topics should factor in the complexity level. To measure complexity, factors such as the scope of the review, the level of interdepartmental coordination required, the availability and complexity of data, and the need for specialised expertise can be considered. Complexity should also influence the number of reviews conducted. A greater number of simpler reviews may be feasible, whereas fewer, more complex reviews might be necessary if the topics are highly challenging. The complexity can gradually increase over time to build experience. This approach allows all stakeholders to start with less challenging topics, facilitating a gradual learning curve and skill development to cover more demanding reviews in the future.

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

of wellbeing services counties, public procurement, public sector ICT investments, and the effectiveness of discretionary government grants.¹⁵ Moving forward, we recommend continuing this practice of identifying potential areas for further review during comprehensive spending reviews. This approach capitalises on the thorough and inclusive nature of the comprehensive review process to anticipate and prioritise areas warranting focused analysis in subsequent spending review cycles. By integrating this practice as one element of the comprehensive spending review process, the MoF will gain new ideas for future targeted spending reviews in a more streamlined, efficient way.

Criteria for topic selection. Considering the potential significance of spending reviews in addressing budgetary challenges and improving productivity, it is recommended to adopt a strategic approach to topic selection. Budgetary issues, such as substantial, unexpected overspending, should serve as primary triggers for initiating spending reviews, enabling proactive measures to maintain fiscal stability. Additionally, areas experiencing significant underspending or disproportionate growth warrant attention, as they may indicate inefficiencies or emerging priorities requiring reassessment. Potential for productivity increases should be considered as well. By prioritising topics based on these triggers, the Finnish government can ensure that spending reviews address pressing financial concerns while aligning resources with strategic objectives.

In addition to the primary triggers, consideration may be given to the availability of relevant data as it becomes challenging to perform in-depth analyses and derive meaningful insights into government spending patterns and outcomes without access to reliable data sources. Insights from external assessments, reports by research institutions and audit findings may also be considered. These types of relevant reports may highlight systemic inefficiencies, budgetary mismanagement, or instances of ineffective resource allocation that warrant closer examination through spending reviews. However, the emphasis should remain on selecting topics that offer clear potential for savings, productivity improvements, and societal impact.

Ideas for topic selection from EU policy priorities. To enhance the relevance and effectiveness of spending reviews, topic selection should draw ideas from EU policy priorities. This would ensure that spending reviews not only address national budgetary challenges but also contribute to broader European policy objectives, such as sustainability and digital transformation.¹⁶ By drawing ideas from EU policy priorities, spending reviews can effectively contribute to advancing broader European objectives and addressing pressing societal challenges.

More specifically, drawing ideas from EU policy priorities would mean considering the fiscal policy guidelines given by the European Commission¹⁷. Based on such guidance, we recommend targeting areas conducive to medium-term debt sustainability and sustainable potential growth. This could involve conducting spending reviews on public investment strategies, assessing the effectiveness of expenditure under the Recovery and Resilience Facility, and evaluating the

¹⁵ FI Ministry of Finance. (2023). Julkisen talouden meno- ja rakennekartoitus. (Spending review 2023, pp. 155.) https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/164695/VM_2023_13.pdf?sequence=1&isAllowed=y

¹⁶ European Union. (2019). European Union priorities 2019-2024. https://european-union.europa.eu/priorities-and-actions/eu-priorities/european-union-priorities-2019-2024_en

¹⁷ European Commission. (2023). Communication from the Commission to the Council. Fiscal policy guidance for 2024. Brussels 8.3.2023, COM(2023) 141 final. https://economy-finance.ec.europa.eu/system/files/2023-03/COM_2023_141_1_EN_ACT_part1_v4.pdf

implementation of Cohesion Policy programmes (e.g., The Innovation and Skills in Finland 2021-2027¹⁸) to ensure that they align with overarching fiscal goals.

Examples of topic trends in the Netherlands:

Spending review topics reflect a diverse range of areas internationally. Example topics from the Netherlands, for instance, range from tackling problematic debts and improving higher education efficiency to youth criminality, geriatric care and energy transitions, chosen based on their relevance to major societal challenges, financial challenges, or the ineffectiveness or inefficiency of current policies.¹⁹

Establishing open channels to gather topic ideas. Finland should consider establishing an accessible channel within the central government to provide an opportunity for **civil servants to suggest topic ideas** for future spending reviews. This channel could facilitate the submission of proposals from various departments and agencies, encouraging input from staff who possess valuable insights into operational inefficiencies and areas for improvement. Furthermore, Finland should consider establishing a separate **platform dedicated to public participation**, allowing citizens to contribute their suggestions for potential spending review topics. This would entail clear articulation of objectives and expectations for the platform to ensure that participants understand how their input will be used in the review process. This public participation platform could be a part of an already existing platform, such as the Ministry of Justice's Otakantaa.fi online platform.²⁰ By engaging both civil servants and citizens, Finland can enhance spending reviews with a broader understanding of societal needs, promoting transparency and public trust in managing public finances.

However, this approach entails a potential risk: the platform may generate a large volume of ideas, necessitating significant time and resources to process them. As a result, the number of feasible ideas may be limited compared to the resources required for evaluation. In addition to that, maintaining such platform requires targeted external communications effort, including strategic communications planning and allocating resources for day-to-day communications.

Overall topic selection process for targeted spending reviews

1

Initial identification of topics by MoF and line ministries

¹⁸ FI Ministry of Economic Affairs and Employment. (2024) <https://rakennerahastot.fi/en/innovation-and-skills-in-finland-2021-2027>

¹⁹ Ministry of Finance of the Netherlands. (2024). Spending Reviews in the Netherlands. World Bank https://isimulate.worldbank.org/mfm_admin/Mission/ViennaWorkshop/6_Spending_reviews_Netherlands.pptx

²⁰ Ministry of Justice. (n.d.) <https://www.otakantaa.fi/fi/>

The MoF should take the lead in the selection of topics. This process should commence prior to the preparation of the General Government Fiscal Plan. By doing so, the MoF can identify relevant budgetary pressures and emerging fiscal challenges. Analysts and desk officers within the MoF should be tasked with conducting preliminary assessments to identify specific programmes or departments experiencing escalating pressure on spending limits. Consideration for topics proposed from the open channels should be given during this stage.

A collaborative approach with the line ministries during the topic selection is recommended. This would entail **informing relevant line ministries** about plans regarding spending reviews and encouraging them to generate **ideas of their own**. However, **line ministries would not be granted veto power** of the selection process. By maintaining decision-making authority with the MoF, a balanced approach is ensured, allowing for collaborative input while preserving impartiality. This guarantees that spending reviews address critical expenditure areas that the line ministries might overlook. It is also important to recognise that cooperation levels during the topic selection process may vary among ministries and among departments within a ministry. This necessitates tailoring the way MoF should approach each ministry. **Approaching the line ministries this way will help foster a sense of ownership among line ministries from the beginning of the process.**

2

Preparation of topic proposal and Terms of Reference

After initial assessments from MoF and line ministries, the MoF and line ministries should jointly prepare a proposal outlining the identified potential topics and Terms of Reference for each spending review. This step should be led by MoF. The ToR should clearly define the topic, objectives, scope, methodology, working groups set up and timeline for each spending review, as well as a savings target. Preparation of topic proposal and Terms of Reference may overlap with the identification of topics.

3

Review of topic proposal and ToR by the Steering Committee

The next step should be presenting the proposal and ToR to the Steering Committee as a means of obtaining higher level endorsement from the line ministries. Presenting the topics to the Committee provides an avenue for addressing any potential concerns or questions raised by line ministries, facilitating a more informed and collaborative approach to the spending review process. Most importantly, this step would provide an opportunity to ensure alignment with the broader strategic objectives and priorities of all ministries involved.

4

Discussion of topic proposal with the Special Advisors

Following this, the proposal should be discussed with the Special Advisors for the ministers in the Ministerial Committee on Economic Policy. The Special Advisors play an important role in budgetary discussions, and discussion with them offers a platform to refine the proposal based on their political perspectives.

5

Review of the topic proposal and ToR by the Ministerial Committee on Economic Policy

Once these discussions are concluded, the proposal for the spending review topics and ToR prepared by MoF should be presented to the political decision-making body, the Ministerial Committee on Economic Policy. Upon reaching a consensus, the Committee should formally approve which spending reviews should be launched. It is important to note that certain politically sensitive topics or themes may be excluded at this point. By gaining the approval of the Ministerial Committee, the selected topics receive a stamp of legitimacy and support.

Setting up the working groups. Once the Ministerial Committee has approved the ToR, working groups should be set up. One arrangement option is to transfer the representatives from line ministries participating in the working groups to the Ministry of Finance's payroll for the duration of the spending review. This approach ensures that line ministries can focus on their core functions and responsibilities without being overburdened by additional resource demands, while still actively contributing to the review process.

Stage 2: Analysis

Conducting analysis. In the second stage of the spending review process, the working groups start their work. Their primary objective is to conduct analysis of existing spending practices and identify potential areas for improvement or optimisation within the scope of the spending review. This involves collecting pertinent data, undertaking benchmarking exercises, and evaluating the effectiveness and efficiency of current spending initiatives. Through rigorous scrutiny and evidence-based assessments, the working groups should aim to identify and develop actionable policy options.

We recommend that Finland adopts a comprehensive approach to analysing spending, expenditure trends, encompassing perspectives of effectiveness, and efficiency. This should involve evaluating spending activities to ensure alignment with government priorities, assessing program effectiveness in achieving objectives, and identifying opportunities for resource optimisation. Utilising both quantitative and qualitative analysis methods will facilitate benchmarking and comparison against international standards. The depth and type of analysis should be tailored to the review's objectives and technical capacities.²¹

Development of policy options. To guide the development of savings options, a set of review criteria should be developed, tailored to specific problem areas. We advise using different types of efficiency assessments in the criteria, as seen in the UK. In creating these criteria, inspiration can be drawn from examples set by international experts. For a detailed table outlining example criteria for identifying saving options, refer to Appendix 3.

In the United Kingdom, the focus is on two types of efficiency: technical and allocative. This dual focus leads to improved consideration of efficiency assessments.

²¹ Doherty, L., & Sayegh, A. (2022). How to Design and Institutionalize Spending Reviews. IMF How To Notes, 2022/004, 8-9.

Technical efficiency refers to achieving desired outcomes with minimal resource input or enhancing outputs without increasing resource allocation. **Allocative efficiency** involves optimising resource allocation to activities that yield the highest ratio of benefits to costs. This approach focuses on maximising outcomes or outputs for a given input by reallocating resources based on calculated efficiencies.²²

Implementation considerations are recommended to be integrated into the policy design process, selecting areas for scrutiny based on their potential for feasible reform. It is crucial to consider legislative requirements, institutional changes and implementation timelines to ensure effective execution of spending review recommendations. This approach should leverage accounting data and cross-cutting of multiple databases to inform concrete proposals and enhance effectiveness.²³

In developing policy options based on the analysis, consideration should also be given to providing advice regarding impact and cost, though leaving political trade-offs to decision-makers. While conducting full-scale assessments for every proposal may not be feasible, the working groups should produce smaller scale impact assessments. These assessments should provide some insights into the potential effects of proposed saving measure without necessitating extensive resources or time commitments.

Written statements regarding ideas for review measures. During the Spending Review 2023 process, a number of research institutions, such as Finnish Competition and Consumer Authority, Research Institute of the Finnish Economy ETLA, were asked to give written statements providing their input on measures to balance the public economic. We recommend that Finland continues this practice so that the spending reviews reflects a broad range of considerations. To enhance the efficacy of planned targeted spending reviews, it would be advisable to request written submissions specifically from stakeholders directly relevant to the subject matter under review. This approach allows the review process to benefit from targeted insights by focusing on stakeholders with expertise or vested interests in the particular topic.

Written statements should be requested after the ToR approval and as the working group begins their work. This timing ensures stakeholders have a clear understanding of the scope and objectives of the spending review, allowing them to tailor their submissions to the specific parameters outlined in the ToR. By asking for statements early, the working group has more time to consider and investigate the stakeholders' perspectives, leading to more informed and effective spending review recommendations.

Preparing a report. It is recommended that working groups tasked with conducting the analysis of the spending review prepare reports outlining their findings and recommendations. These reports should serve as essential tools for decision-makers, providing them with valuable insights and evidence to guide resource allocation decisions effectively.

Working groups should leverage their combined expertise and resources to produce reports offering meaningful insights and actionable recommendations on expenditure practices and optimisation opportunities. Ultimately, the goal is to deliver reports that

²² See PwC. (2024). Deliverable 2 Report: Technical report on international good practices on the design, structure, governance and implementation of spending reviews.

²³ Bova, E., Ercoli, R., Bosch, X. (2020.) Spending reviews: Some insights from Practitioners -Workshop Proceedings. EU Commission Discussion Paper 135, p. 16.

empower decision-makers to make informed and strategic choices that enhance the efficiency and effectiveness of government spending.

Stage 3: Decision-making

During the third stage of the spending review process, the findings and recommendations should be presented for decision-making, distributed internally and published online.

We recommend the decision-making process to include the following steps (subject to MoF's discretion):

1

Review of findings by the Steering Committee

The findings of the spending review should first be presented to and reviewed by the Steering Committee. They should approve the final outputs, ensuring they align with the predetermined objectives and criteria. The Steering Committee should aim to guarantee the quality, accuracy, and relevance of the finalised outputs before the next step of the decision-making process.

2

Discussion of recommendations with Special Advisors

Following approval by the Steering Committee, the final outputs should be then discussed with the Special Advisors, similar to the topic selection process. Engaging in discussions with these advisors would provide valuable guidance on the most effective approach for presenting the recommendations to the Ministerial Committee. This collaboration ensures that the presentation strategy aligns with the Committee's preferences and maximises the impact of the recommendations during deliberations.

3

Presentation of findings to the Ministerial Committee

Subsequently, the finalised outputs can be formally presented to Ministerial Committee on Economic Policy. This presentation should involve overviews of the findings and recommendations, supported by relevant data and analysis in order to facilitate informed discussions and decisions by the politicians. For the presentations, relevant to ministers that are not members of the Ministerial Committee, invitations should be extended to ensure their inclusion in the decision-making process.

4

Decision-making by the Ministerial Committee

Finally, the Ministerial Committee should deliberate on the spending review recommendations, determining whether they endorse them wholly or in part. It is essential that the Committee provides clear endorsement of the spending review recommendations, signifying the commitment of the political leadership to implement the proposed measures.

The Ministerial Committee should approve the finalised findings and recommendations, particularly if the spending review addresses both fiscal consolidation and efficiency targets, or contains split recommendations by MoF and respective line ministry. In such cases, the committee's decision would determine the

primary focus line ministry should adhere in preparing its budget proposal. While the regular budget process will ultimately finalise matters, the Committee's approval of the results is important in guiding line ministries during budget preparations.

5

Internal and external communication of findings

Internal distribution. The finalised results of the spending reviews should be distributed internally to ensure that relevant stakeholders have access to the findings and recommendations to inform decision-making processes. The report can be distributed to relevant officials and department heads, and briefings or presentations can be held for representatives from various ministries and agencies. These forums may provide an opportunity for dialogue and clarifications. Sharing the results of the spending review with other line ministries may also serve as a valuable educational tool, providing examples of best practices and teaching about the benefits of conducting reviews. This type of knowledge sharing fosters awareness and may ultimately lead to stronger collaboration within the government.

External distribution and publication. For the Spending review 2023, the MoF published a comprehensive report in Finnish through the Institutional Repository for the Government online service, accompanied by an executive summary in English. In addition, multiple online posts were also published on the MoF website. Making the findings public and available in both Finnish and English demonstrates a commitment to transparency and accessibility, and we recommend continuing this practice. By continuing these proactive practices in future spending reviews, the MoF can reinforce its commitment to transparency, accountability, and stakeholder engagement. This, in turn, will strengthen public trust in government institutions, empower citizens to participate in the budgetary process, and ultimately contribute to more effective and responsive governance.

Stage 4: Implementation

Implementation of recommendations. The responsibility for implementing spending review recommendations rests with the relevant line ministries. These ministries are tasked with translating the review findings and recommendations into tangible actions and policy changes. This entails initiating possible legislative amendments, institutional changes, and other proposed measures that the Ministerial Committee on Economic Policy decided to endorse. It is crucial for line ministries to fully understand the recommendations and their implications to ensure successful execution.

The most important element of this stage is implementing the spending review outcomes through the regular budget process. When line ministries and agencies prepare their draft budgets, they should utilise the spending review findings and recommendations endorsed by the Ministerial Committee on Economic Policy. Ministries and agencies should, at a minimum, disclose how they have taken the recommendations into account in their budget proposals. By doing so, they ensure that the identified efficiencies and savings become reflected in their resource allocation planning.

Monitoring implementation of spending review recommendations on the other hand is recommended to be the responsibility of MoF. This involves tracking the progress of each recommendation's implementation across relevant line ministries. For this, we recommend developing a set of performance indicators to track

implementation more effectively. Monitoring of implementation also includes assessing whether expected results are being achieved.

Ex-post assessment. It is advisable to also conduct an ex-post assessment following the completion of spending reviews to assess the effectiveness and impact of implemented measures. This assessment may include analysis of the achieved savings and/or efficiency gains as well as the overall performance of the initiatives proposed during the spending review. By conducting sufficient ex-post assessments, Finland can learn and continuously enhance its fiscal management practices. However, conducting a credible ex-post evaluation can be complex and may require careful consideration of research designs during the design and implementation phases of measures.

4.4.3. Recommended Process for Comprehensive Spending Reviews

The process of comprehensive spending reviews, regardless of the organisational models, would differ from targeted spending reviews. The process would be as follows:

Table 3. Overview of the Comprehensive spending review process.

Stage	Activities	Responsibility
Stage 1 Preparation	<ul style="list-style-type: none"> • Determination of objectives and scope for the spending review. • Preparation of Terms of Reference. 	<ul style="list-style-type: none"> • MoF
Stage 2 Analysis	<ul style="list-style-type: none"> • Collection of data, analysis and development of policy options. • Preparation of spending review report. 	<ul style="list-style-type: none"> • Working groups
Stage 3 Presentation of Findings	<ul style="list-style-type: none"> • Publication of the report. • Presentation of findings and recommendations to the political parties represented in the newly elected Parliament. • Negotiations and decision-making by the major political parties represented in the newly elected Parliament. 	<ul style="list-style-type: none"> • MoF • Political level

Stage 1: Preparation

Preparation of the comprehensive spending review would entail MoF staff determining and formalising the objectives, scope, and other details of the spending review process through a Terms of Reference. The ToR would be approved by the Permanent Secretary of the MoF. Multiple working groups would be appointed to conduct the analysis, their composition depending on the sector and circumstances.

Stage 2: Analysis

During this stage, the appointed working groups would scrutinise general government finances holistically, ensuring the sustenance of core public sector functions. They would explore not only direct expenditure adjustments but also structural changes and avenues to augment revenue streams from fees and property. The ultimate goal would be to develop alternative measures for improving the overall fiscal health of the Government. To help in the analysis process, support from external experts, and written statements from research institutes may be requested similarly to targeted spending reviews.

The analysis and the report should be finalised before the parliamentary elections for optimal timing.

Stage 3: Presentation of Findings

During the final stage, the report outlining the spending review findings and recommendations should be published in the same manner as recommended for targeted spending reviews. Through the publication of the report, the insights of the comprehensive spending review are presented to the political parties in the newly elected Parliament. The spending review insights will be then used to inform negotiations between the major political parties, and ultimately influence the decision-making of the Government Programme, which serves as the guiding blueprint for budgetary decisions throughout the parliamentary term.

4.5. Integration with the Annual and Medium-term Budget Frameworks

Integration with the annual budget process. The process of targeted spending reviews should be closely aligned with the budget calendar and the key decision points for approving the budget at various stages and with some or full overlap of decision makers. We recommend integrating the targeted spending review process with annual budgeting process in the following way:

Table 4. Annual spending review process and budget calendar

Month	Selected budget calendar milestones	Targeted Spending Review Process Milestones	
		Initiation (year 1)	Finalisation (year 2)
Nov-Dec of previous year		Starting from November of the previous year, MoF and line ministries start work on identifying spending review topics.	
Jan		Topic proposal and ToR prepared by MoF, reviewed by the Steering Committee.	Ministerial Committee approves the SR results
Feb	Ministries and government agencies prepare draft budgets for MoF	Discussion on the topics with the Special advisors	Until May: Ministries prepare draft budget submissions using findings of the spending reviews
Mar	MoF spring economic forecast	ToR presented and approved by the Ministerial Committee on Economic Policy.	
Apr	[in March: General Government Fiscal Plan and Spending Limits Decision prepared by MoF and approved by Government]		
May	MoF receives draft budgets from each branch of government	Analysis stage: Working groups initiate work in April or later if the review task requires less time.	
Jun	Budget proposals reviewed and negotiated by MoF	Spending review results are used in the budget negotiations.	

Month	Selected budget calendar milestones	Targeted Spending Review Process Milestones	
		Initiation (year 1)	Finalisation (year 2)
Jul			
Aug	MoF holds budget session. MoF opinion published		
Sep	MoF autumn economic forecast Government holds budget sessions Budget proposal is submitted to Parliament		Budget proposal is accompanied with a note explaining how spending review results have been incorporated.
Oct	Budget proposal is reviewed by the Finance Committee of the Parliament		
Nov	Amendment to budget proposal submitted to Parliament Finance Committee report Parliamentary commentary		
Dec	Parliament votes on Budget	Finalise recommendations and the report by the end of the year	Approved Budget includes results of the spending reviews implemented in relevant budget ceilings

The proposed timeline implies a duration of approximately 14 months of active spending review work while the integration into the budget would require another 12 months. A visualisation of the proposed timeline can be found in Appendix 4. The exact timings are flexible. The identification and selection of topics may begin at the end of the previous year so that the Steering Committee may review the topics proposal in January. The proposed topics should then be discussed with Special Advisors in February before they are presented to the Ministerial Committee on Economic Policy for approval in March. Following approval from the Ministerial Committee, working groups may begin their work in April (or later if the review task requires less time) conducting analysis and developing policy options throughout the summer and autumn, aiming to finalise their work in the winter. This way, there is more than enough time for thorough analysis.

The Ministerial Committee on Economic Policy should approve the final outputs by the end of January so that line ministries may begin their preparation of budget proposals using the conclusion of the spending reviews from February to May. Spending review results may then be used in the budget negotiations. When the budget proposal is submitted to Parliament, it should be accompanied by a detailed note explaining the incorporation of spending review results. This transparency would ensure that lawmakers understand how evidence-based recommendations have influenced

budget allocations, enhancing informed decision-making. As Parliament votes on the Budget in December, the results of the spending reviews are already reflected in the relevant budget ceilings.

This timeline provides sufficient preparation time for the reviews and aligns with key milestones in the budget process. As experience with spending reviews grows, shorter durations may become feasible for certain reviews, allowing for their preparation, conduct, and implementation within a shorter time span.

Alignment with Medium-Term Budget Frameworks (MTBF). In targeted spending reviews, many of the savings identified through the review process may only be realised over several years and may require upfront investments or other costs, such as redundancy payments, to be achieved. Therefore, to ensure that savings are realised over the coming years, it is crucial to align these savings (and any initial spending necessary to achieve them) with the medium-term budget targets for the respective ministry. In practice, this may involve specifying the particular budget lines being reviewed when preparing the ToR, for example. Further, when line ministries submit budget plans, they should make explicit reference to spending review results and how those have impacted budget proposal.

Conducted every four years in alignment with parliamentary elections, the comprehensive spending review can be used by decision-makers in e.g. government negotiations.

4.6. Regulation

Recommendation 7. To institutionalise the spending review instrument in Finland, we advise incorporating the concept of spending reviews in decree level regulation, specifically by amending the Government Decree on the Ministry of Finance (610/2003).

This approach would establish spending reviews as a permanent tool for the MoF to evaluate and optimise public expenditure, without extensive legislative procedures.

To further institutionalise spending reviews in Finland, it is advisable to consider incorporating the concept of spending reviews into the Finnish legal framework. The Finnish legal framework encompasses both laws enacted by the Parliament in accordance with the Constitution and lower-level regulations issued based on the authorisation provided by law, such as decrees of the Finnish Government and ministries. The spending review instrument could be incorporated into decree-level regulations, such as the **Government Decree on the Ministry of Finance** (FI: *Valtioneuvoston asetus valtiovarainministeriöstä, (610/2003)*.²⁴ This decree establishes the legal basis for the MoF's functions, including its authority in financial management, budget preparation, and economic policy implementation. It specifies the organisational structure of the MoF, the duties of its officials, and the procedures for carrying out its mandates. By incorporating the spending review into this decree, it would formalise these practices as a continuous and integral part of the MoF's efforts

²⁴ FI Government. Valtioneuvoston asetus valtiovarainministeriöstä (610/2003). <https://www.finlex.fi/fi/laki/ajantasa/2003/20030610>

to optimise public expenditure, ensuring systematic evaluation and effective use of government resources.

By amending a Government decree, Finland can establish a formal framework for conducting regular spending reviews more swiftly and with less bureaucratic hurdles compared to the process of amending laws.

The purpose of amending the decree would focus on incorporating the concept of spending reviews, refraining from extensive detail on procedural aspects. This approach would aim to establish spending reviews as a new instrument for the MoF to evaluate and optimise the use of public expenditure.

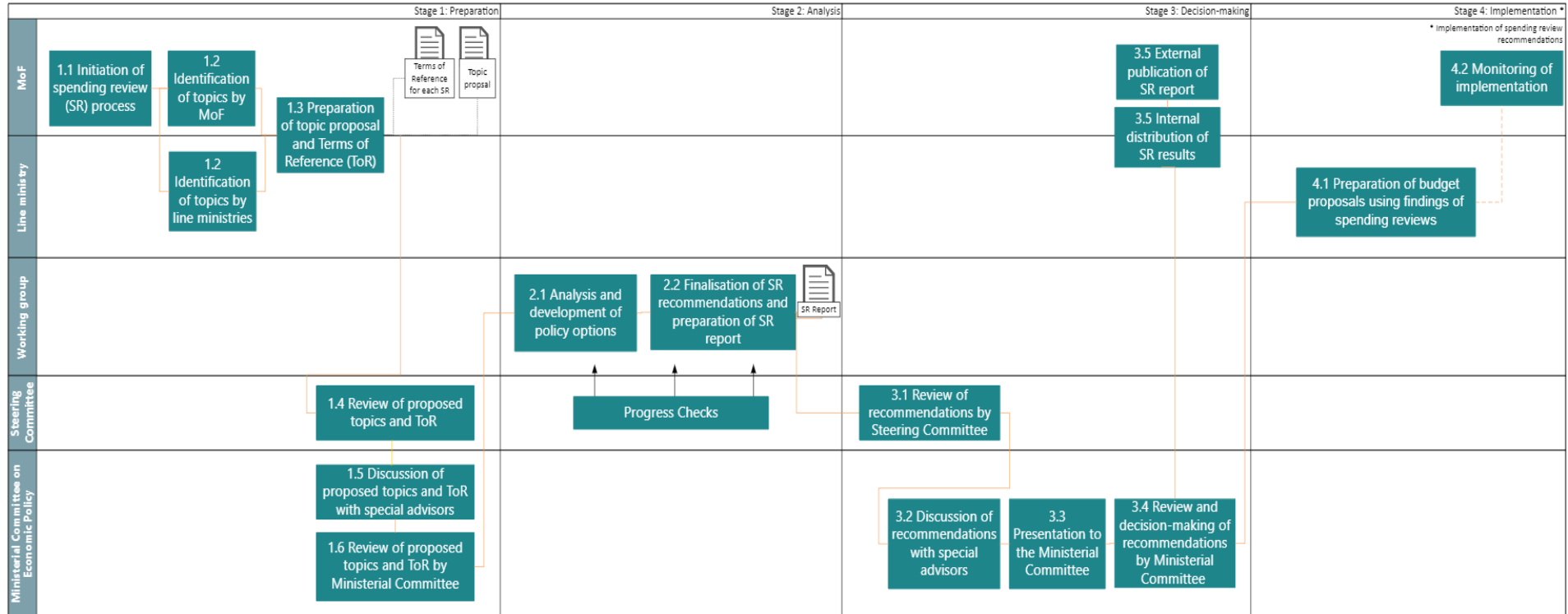
Finland is known for its meticulous approach to governance, rooted in a strong legal tradition and a culture that highly values adherence to established laws and regulations. This legalistic culture ensures that policies and practices are formalised and followed consistently across government agencies. Therefore, integrating spending reviews into the legal framework aligns with Finland's administrative culture, reinforcing the importance of structured processes and adherence to established procedures.

5. Appendices

5.1. Meetings for D3

Date	Organisation	Themes	Participants
13.03.2024	PwC FI	Workshop regarding frequency, scope, topic selection	Annaliina Kortelainen, Atro Andersson, Ulla Hämäläinen, Jukka Mattila, Ilari Ahola
3.5.2024	PwC Fi	Targeted Interview	Mika Niemelä, Annika Klimenko

5.2. Proposal for Business Process Map for Targeted Spending Reviews

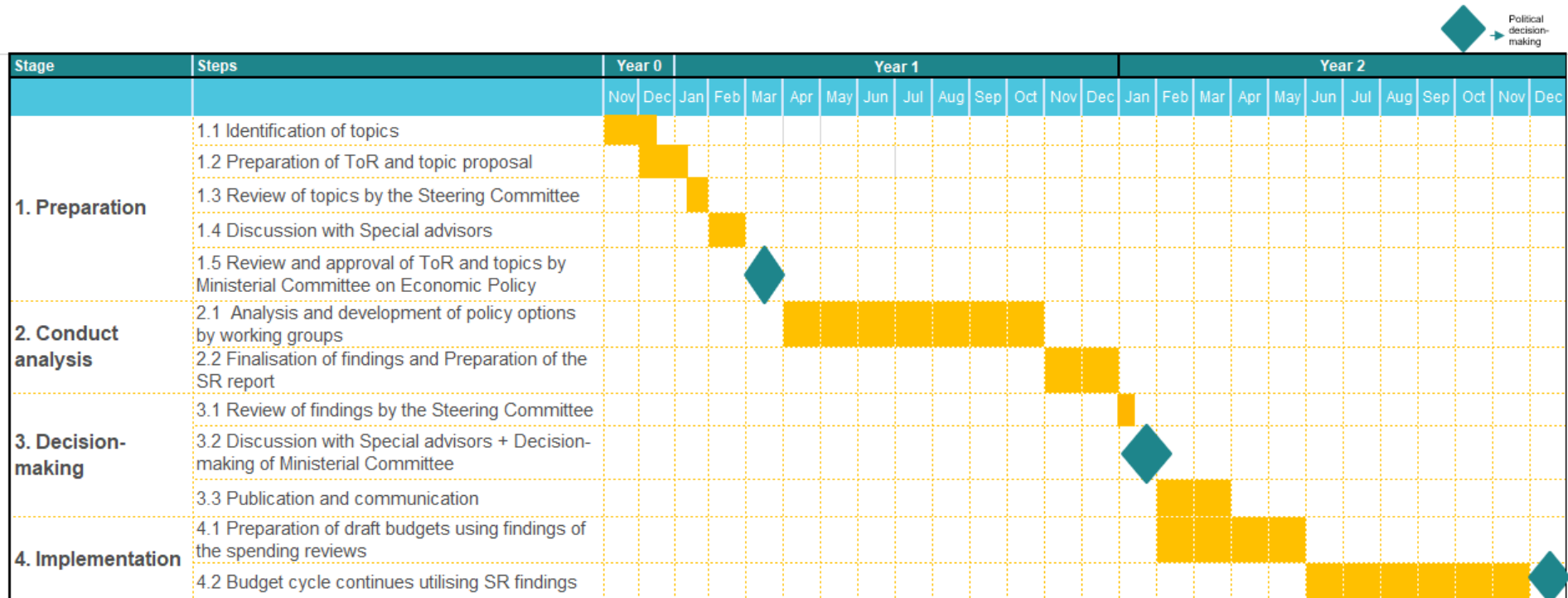


5.3. Potential Criteria for Identifying Saving Options²⁵

>	Relevance	<ul style="list-style-type: none">• Is the policy activity aligned with the government's stated priorities?• Is there still a need for the activity?
>	Effectiveness	<ul style="list-style-type: none">• Are activities achieving their intended objectives or outcomes?• Is there a need to reconsider the program design?
>	Efficiency	<ul style="list-style-type: none">• Are activities being delivered in a cost-effective way, or can they be provided at reduced cost without compromising outcomes (for example, through changes in service delivery or simplified administrative arrangements)?
>	Equity	<ul style="list-style-type: none">• Can the activity be better targeted to meet its intended objectives?• Is there room for larger contributions from individuals who benefit (e.g., user charges)?
>	Duplication	<ul style="list-style-type: none">• Is there a way to reduce duplication, merge shared services, or consolidate overlapping programs across government that target similar objectives?

²⁵ Doherty, L., & Sayegh, A. (2022). How to Design and Institutionalize Spending Reviews. IMF How To Notes, 2022/004, 8-9.; Robinson

5.4. Proposed Timeline for Targeted Spending Reviews





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