

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

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Executive Summary

Purpose of the report

The purpose of this report is to identify critical success factors for the design, structure and governance of spending reviews and its linkage to state budgeting and policy evaluation processes. The report has been reviewed and approved by the Beneficiaries and DG REFORM.

Country level summaries

The international best practices study focuses on five countries with significant experience in conducting spending reviews, a clear governance model, clear objectives and scope, and a strong impact on budget planning and policy development. The selected countries for the study were Denmark, Ireland, Latvia, the Netherlands and the UK. These countries have institutionalised spending reviews to varying extents. This selection provides a comprehensive overview of different spending review approaches. Desk research and knowledge sharing sessions with international experts acted as a basis for the analysis. Each country's spending review framework, policy evaluation and case studies are described in further detail in separate country-specific chapters.

Denmark:

- Denmark has conducted annual, targeted spending reviews since the 1980s, producing them as part of the annual state budgeting process. The goal is to create fiscal space.
- There is strong collaboration between the Ministry of Finance and line ministries, coupled with significant political commitment, as top ministers actively participate in the decision-making of spending reviews. External consultants are contracted to carry out the spending review analysis.
- Spending reviews are rarely published in Denmark.

Ireland:

- Ireland conducts spending reviews since 2009. Objective was originally fiscal consolidation, currently efficiency and effectiveness evaluation and evidence-based policy making.
- Ireland conducts annual spending reviews in three-year cycles aiming to cover 1/3 of total expenditure each year. Over time the scope of spending reviews has broadened to increase output across Departments. This has however resulted for the spending review recommendations and conclusions to become rather broad.
- Ireland's unique network, IGEES, unites specialists across sectors, thereby facilitating information flow, sharing know-how and analytical capabilities and managing the strategic direction of all policy evaluations.

Latvia:

- Since 2015, Latvia conducts annual comprehensive spending reviews.
- The objective of spending reviews is reprioritising public spending and getting the best value for money.
- The spending review process is regulated by the Law on Budget and Financial Management.
- There are several institutions involved in the spending review process, including State Audit Office (observation, independent assessment), Bank of Latvia (macroeconomic data) and State Chancellery (policy development and implementation).

The Netherlands:

- The Netherlands has carried out spending reviews since the early 1980s. In total, more than 300 spending reviews have been conducted over the last 40 years with the focus shifting away from creating fiscal space to generating policy options.
- The Netherlands conducts both annual targeted and comprehensive spending reviews.
- In the Netherlands a clear distinction exists between drafting the spending review report, the political appraisal of the report and communication to the Parliament.
- External consultants may participate in the workings groups, providing relevant knowledge.

The UK:

- Since 1998, the UK has conducted comprehensive spending reviews typically every three years, aiming to set the Government's long-term plans for public expenditure and departmental budgets.
- The spending review system also encompasses efficiency reviews which aim to strategically assess service delivery and identify opportunities for efficiency improvements.
- The exact structure of the governance may vary with each review round, but typically it involves HM Treasury (UK's equivalent of Ministry of Finance) leading the process and all departments (UK's equivalent of line ministries).

Key takeaways

The most important key takeaways are as follows:

- The international best practices study indicates that the spending review instrument is mostly not regulated through legal acts, with the exception of Latvia. Primarily, the instrument is executed through informal processes. While a clear legal framework may provide clarity and ensure regularity, it may also be rigid and slow to adapt to changing circumstances. Denmark offers a successful example of building an effective informal spending review process, which is flexible and responsive to evolving needs and priorities.
- The study reveals varying degrees of integration between spending reviews and the state budgeting process across the different countries. The most effective spending review systems have a direct link to the regular budgeting process. This ensures that the results of the spending reviews are adapted and reflected in the regular budgeting decisions, a practice exemplified by countries like Denmark. Strong integration to the budgeting process enhances fiscal efficiency and ensures informed budget allocation decisions aligned with performance, value for money and changing priorities.
- Furthermore, the study indicates that spending reviews are rarely integrated with policy evaluation across the examined countries. Ireland and the Netherlands are examples where policy evaluation and spending reviews are most integrated among the five selected best practice countries.
- The international best practices show the high importance of strong political commitment. This is crucial in order to make the spending review instrument operational. Strong political commitment on the spending review process itself helps ensure buy-in to the process and participation of all stakeholders. It is also crucial for ensuring the implementation of the spending review results, especially in cases requiring expenditure cuts.
- In all the five best practice countries, strong cooperation between the Ministry of Finance and line ministries has been established over time, through a gradual process. Active involvement of line ministries in the spending review process is crucial for the success of spending reviews. A collaborative approach fosters consensus and joint ownership of the spending review process. Providing the line ministries with templates for input and clear objectives in guidance documents such as a Terms of Reference further facilitates their engagement. Some of the best practice countries (e.g., Denmark, UK) offer additional incentives, such as allowing ministries to retain a varying share of the identified savings for reallocation.

Key lessons learnt

- Ensure spending reviews have a clear scope and recommendations that are specific and actionable. Spending review aim and scope should be adjusted to account for the fiscal landscape.
- Spending reviews and policy evaluations should remain clearly distinguishable processes with separate aims and scope.
- Promote spending reviews as tools for line ministries to gain insights into their own spending and improve its effectiveness.
- Consider involving external subject matter experts to bring in specialised expertise. However, it is important to be mindful of the risks, as Denmark's extensive use of external consultants resulted in a weaker knowledge base within the MoF. Additionally, it is important to factor in the potential high costs associated with engaging such services.
- The quality of spending reviews is directly tied to the quality of data utilised. Accurate and comprehensive data is essential for meaningful insights and informed decision-making.

- Clearly define responsibilities among participants and establish a fixed meeting structure for decision-making and coordination. Ensure spending reviews receive contributions from relevant stakeholders and institutions to enhance the quality of the analysis and recommendations. Ensure that the spending review process incorporates lessons learned from previous reviews, in order to refine and enhance future iterations while promoting continuous improvement.
- When seeking efficiency improvements, it is beneficial to focus on different types of efficiency, such as allocative and technical efficiency.

List of Acronyms and Abbreviations

Word	Meaning, Definition
AME	Annually Managed Expenditure
CSR	Comprehensive Spending Review
CST	Chief Secretary to the Treasury
CX	Chancellor of the Exchequer, the head of His Majesty's Treasury.
DEL	Departmental Expenditure Limits
DG REFORM	The European Commission's Directorate-General for Structural Reform Support
DKK	Danish Krone
EC	European Commission
ECC	Danish Cabinet's Economic Coordination Committee
EE MoF	Estonian Ministry of Finance
EMU	Economic and Monetary Union
EU	European Union
FI MoF	Finnish Ministry of Finance
GBP	Great British Pound
GDP	Gross domestic product
HMT	His Majesty's Treasury, HM Treasury. The UK's Finance Ministry
IMF	International Monetary Fund
ICT	Information and Communications Technology
MTO	Medium-term budgetary objectives
OECD	Organisation for Economic Co-operation and Development
ODP	Outcome Delivery Plans
PM	Project manager
PwC	PricewaterhouseCoopers
RASCI Matrix	Responsibility Assignment Matrix: Responsible, Accountable, Supportive, Consulted, Informed
RfS	Request for Service
SGP	Stability and Growth Pact
SMART Framework	Project Management Framework: Specific, Measurable, Achievable, Relevant, Time-Bound

Word	Meaning, Definition
SSSC	The State Shared Service Centre
SR	Spending Review
SWOT	Strengths, Weaknesses, Opportunities and Threats analysis
TFEU	Treaty on the Functioning of the European Union
ToR	Terms of Reference
TRG	Technical Review Group
UK	United Kingdom
VAT	Value Added Tax

Table of Contents

1. Macroeconomic Context of Best Practice Countries	10
2. Methodology of the Best Practice Analysis	14
2.1. Country Selection	14
2.2. Description of the Approach	15
3. Denmark	17
3.1. Overview of Spending Reviews	17
3.2. Spending Review Framework	19
3.3. Policy Evaluation Framework and Linkage to Spending Reviews	26
3.4. Case Study	28
3.5. Success Factors and Challenges	30
4. Ireland	32
4.1. Overview of Spending Reviews	32
4.2. Spending Review Framework	34
4.3. Policy Evaluation Framework and Linkage to Spending Reviews	39
4.4. Case Study – Review of the Long-Term Illness Scheme	39
4.5. Success Factors and Challenges	41
5. Latvia	43
5.1. Overview of Spending Reviews	43
5.2. Spending Review Framework	44
5.3. Policy Evaluation Framework and Linkage to Spending Reviews	49
5.4. Case Study	50
5.5. Success Factors and Challenges	53
6. The Netherlands	55
6.1. Overview of Spending Reviews	55
6.2. Spending Review Framework	57
6.3. Policy Evaluation Framework and Linkage to Spending Reviews	63
6.4. Case Study	65
6.5. Success Factors and Challenges	67
7. The United Kingdom	69
7.1. Overview of Spending Reviews	69
7.2. Spending Review Framework	72
7.3. Policy Evaluation Framework and Linkage to Spending Reviews	81
7.4. Case Study	85
7.5. Success Factors and Challenges	88
8. Best Practice Comparison with Estonia and Finland	91
Appendices	96
Appendix 1. Overview of Spending Review Process in Latvia	96
Appendix 2. Comparison of Spending Review Approaches in Latvia	97
Appendix 3. Latvia Financial Results of the Spending Review Results Adopted in 2023	98

Appendix 4. Ireland’s 2023 Spending Review Stages..... 99
Appendix 5. Ireland’s Broad Categories of Topics of Spending Reviews 2017-2022
..... 100
Appendix 6. Comparison of UK’s Spending Reviews and Efficiency Reviews 101
Appendix 7. The UK’s Types of Efficiency 102

1. Macroeconomic Context of Best Practice Countries

Fiscal policy needs to ensure debt sustainability while responding to new priorities. According to the OECD's 2023 Economic Outlook, the current public debt-to-GDP ratio is historically high due to fiscal pressures stemming from an ageing society and the imperative to address climate change. Stylised projections indicate that the public debt-to-GDP ratio is poised to continue increasing significantly without government intervention (see Figure 1).¹

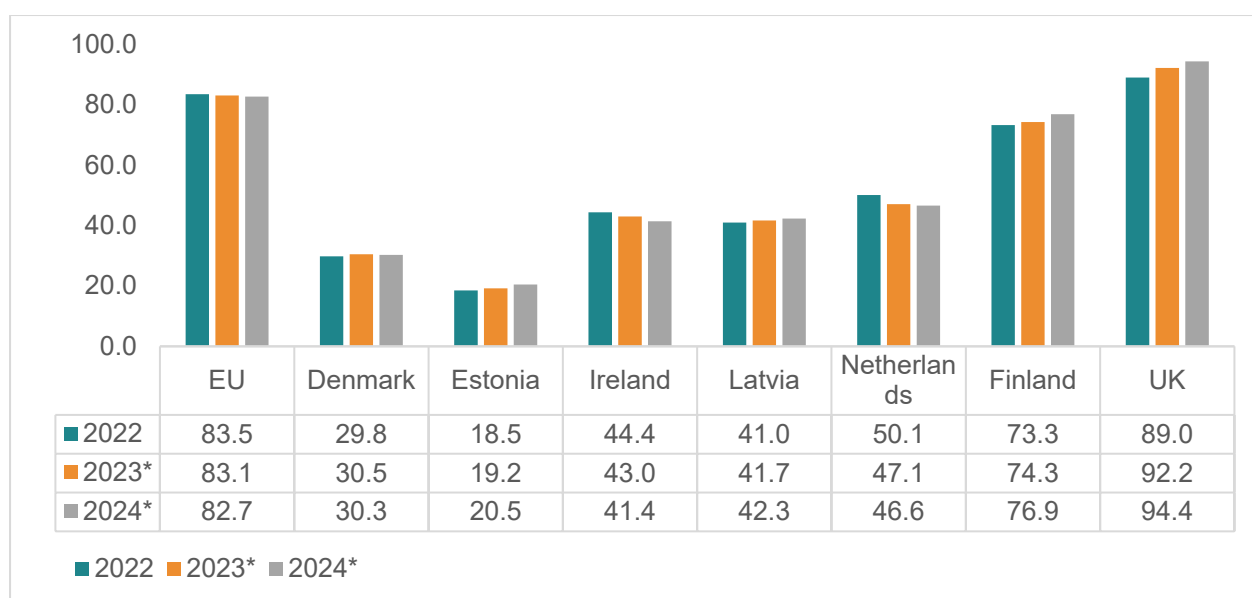


Figure 1. General government gross debt (% of GDP)²

In 2023, fiscal policy has taken a mildly restrictive stance, partly due to the expiration of pandemic-related support. Despite this, many governments have provided substantial assistance to energy users. However, decreasing energy prices from their peaks has helped moderate costs, and support has already been fully or partially withdrawn in some countries. Fiscal projections for 2024-2025 anticipate consolidation in most countries, often at a modest pace, reflecting the phasing out of support to energy consumers.

Public debt levels remain elevated compared to pre-pandemic times. Interest payments on general government debt are projected to rise in 2024-2025 as low-yielding debt matures and is replaced by higher-yielding issuance. Beyond 2025, the implicit interest rate on public debt is expected to surpass the nominal GDP growth rate, contributing to higher debt-to-GDP ratios. This increase is driven by factors such as ageing populations, climate transition and defence expenditure plans.³

To enhance policy responsiveness to future shocks and reduce the burden on monetary policy, strengthened near-term efforts to rebuild fiscal space are recommended. Medium-term fiscal frameworks and clear guidance on spending and tax plans are deemed

¹ OECD (2023), International Migration Outlook 2023, OECD Publishing, Paris.

² Eurostat, General government gross debt [sdg_17_40], Data extracted on 20/12/2023.

³ OECD (2023), International Migration Outlook 2023, OECD Publishing, Paris.

essential for debt sustainability. These measures are crucial for addressing future spending pressures and prioritising strategic investments.⁴

Denmark's economic outlook, marked by its effective monetary and fiscal policies, is navigating through moderate growth. The nation's real GDP was projected to grow at a subdued rate of 1.2% in 2023, with a slight uptick to 1.4% in 2024 and 1.6% in 2025. Despite these modest growth figures, Denmark's fiscal approach demonstrates remarkable effectiveness and prudence.⁵ The government budget surplus, a clear indicator of this effectiveness, is expected to adjust from a substantial 3.3% of GDP in 2022 to a lower yet stable 2.6% in 2023 and further to 1.8% in 2024, finally reaching 1.2% in 2025. These changes are influenced by increased government spending on consumption, investment and international aid, including defence donations to Ukraine.⁶ Moreover, Denmark's public sector debt management is a testament to its sound fiscal policies. The debt ratio is anticipated to decline to 27.2% of GDP towards the end of the forecast period, benefiting from the government's surpluses and other economic factors.⁷

Ireland's economic landscape is characterised by a cautious yet positive recovery, with GDP growth forecasted to rise from -0.9% in 2023 to 3.4% in 2025.⁸ This rebound is underpinned by reduced inflation and strategic public expenditures for long-term sustainability challenges, such as population ageing, housing and climate change.⁹ Fiscal management has shown resilience, with a projected fiscal surplus of 0.9% of GDP in 2023 and public debt expected to decrease to around 40.2% by 2025.¹⁰ Public sector expenditure remains a crucial aspect of Ireland's fiscal policy, reflecting the government's commitment to addressing essential long-term issues while maintaining fiscal health. The focus remains on balancing immediate economic support with sustainable fiscal practices and enhancing public service quality, particularly in critical housing and renewable energy sectors.¹¹

In 2023, **Latvia's** economy faced a contraction, primarily due to weak private consumption and export performance, but is expected to recover with growth forecasted at 2.4% in 2024 and 3% in 2025. Inflation, driven by high energy and food prices, remains a significant concern. The government is tightening fiscal policy to manage inflation and support public investment. The general government deficit is projected to decrease from 4.6% of GDP in 2022 to 3.2% in 2023, reflecting better-than-expected tax collections. For 2024, the deficit is expected to decrease slightly to 3.1% of GDP, balancing phased-out energy measures with increased spending on wages, healthcare and education. Revenue is also anticipated to rise moderately from new tax measures. By 2025, the government deficit is expected to stabilise at 3.1% of GDP, aligning with nominal GDP growth. Meanwhile, the debt-to-GDP ratio is forecasted to increase from 41.7% in 2023

⁴ OECD (2023), OECD Economic Outlook, Volume 2023 Issue 2: Preliminary version, OECD Publishing, Paris.

⁵ IMF. Denmark: 2023 Article IV Consultation-Press Release; and Staff Report; IMF Country Report No.23/227; 1 June 2023

⁶ OECD (2023), OECD Economic Outlook, Volume 2023 Issue 2: Preliminary version, OECD Publishing, Paris.

⁷ Economic forecast for Denmark, last Update 15.11.2023, https://economy-finance.ec.europa.eu/economic-surveillance-eu-economies/denmark/economic-forecast-denmark_en

⁸ Economic forecast for Ireland, last Update 15.11.2023, https://economy-finance.ec.europa.eu/economic-surveillance-eu-economies/ireland/economic-forecast-ireland_en

⁹ OECD (2023), OECD Economic Outlook, Volume 2023 Issue 2: Preliminary version, OECD Publishing, Paris.

¹⁰ Economic forecast for Ireland, last Update 15.11.2023, https://economy-finance.ec.europa.eu/economic-surveillance-eu-economies/ireland/economic-forecast-ireland_en

¹¹ OECD (2023), OECD Economic Outlook, Volume 2023 Issue 2: Preliminary version, OECD Publishing, Paris.

to 43.2% in 2025 due to stock-flow adjustments and a nominal GDP growth rate lower than debt growth.¹²

In 2023, the **Netherlands**' economy is facing a slowdown, with GDP growth expected to remain subdued due to decreasing export volumes and reduced consumer spending. This economic cool down is reflected in a forecasted limited GDP growth for the year. The general government deficit is projected to increase to 0.5% of GDP in 2023, up from 0.1% in 2022, mainly due to government measures to mitigate the impact of high energy prices on households and companies. The deficit is expected to widen to 1.8% of GDP in 2024 and to 2.0% in 2025, driven by higher expenditure on public investment and social benefits. Despite the increasing government expenditure, the Netherlands' government debt is projected to follow a downward trend. The debt-to-GDP ratio is expected to decrease from 50.1% in 2022 to 47.1% in 2023 and to 46.6% in 2024 before slightly rising to 46.8% in 2025. This trajectory is supported by continued high nominal GDP growth.¹³ The Netherlands is also grappling with structural challenges, including labour market tightness and the need to advance the green transition. The fiscal policy stance has been slightly expansionary since 2020, focusing on returning to fiscal rules and addressing these structural issues. Overall, the country is navigating a period of moderate economic growth, emphasising the support of consumption, management of public investment, and addressing structural challenges to ensure long-term stability and growth.¹⁴

The economic outlook for the **United Kingdom** in 2023 and beyond is characterised by modest growth amid several challenges. According to the OECD, the UK's GDP growth is projected to be mediocre at 0.3% in 2023, with a slight improvement to 1.0% in 2024. This growth is supported by government consumption and investment, and a gradual strengthening of private expenditure influenced by declining wholesale gas prices and improved global conditions.¹⁵ The IMF highlighted that the UK was expected to avoid a recession in 2023 but faced a challenging economic outlook due to the energy price shock resulting from Russia's war in Ukraine. The shock has disrupted recovery, with inflation reaching record levels and growth projected at a modest 0.4% in 2023 and 1% in 2024. The country's long-term prosperity hinges on ambitious reforms to bolster productive potential and maintain its status as a global innovation leader.¹⁶ The Eurosystem staff macroeconomic projections for the euro area, which includes observations about the UK, note that the global economy grew at a moderate but steady pace in 2023, supported by resilient labour markets and robust private consumption. However, the rate is expected to moderate somewhat. In the UK, the economy is assessed to avoid a recession. Still, the growth in 2024 and 2025 has been revised, reflecting weaker data and the delayed impact of monetary policy tightening amid high inflation.¹⁷ In summary, the UK's economic scenario is marked by slow growth, influenced by external shocks and structural

¹² Economic forecast for Latvia, last Update 15.11.2023, https://economy-finance.ec.europa.eu/economic-surveillance-eu-economies/latvia/economic-forecast-latvia_en

¹³ Economic forecast for the Netherlands, last Updated 15.11.2023, https://economy-finance.ec.europa.eu/economic-surveillance-eu-economies/netherlands/economic-forecast-netherlands_en

¹⁴ OECD (2023), OECD Economic Outlook, Volume 2023 Issue 2: Preliminary version, OECD Publishing, Paris.

¹⁵ OECD (2023), OECD Economic Outlook, Volume 2023 Issue 1, OECD Publishing, Paris. https://www.oecd-ilibrary.org/economics/oecd-economic-outlook-volume-2023-issue-1_9a690307-en

¹⁶ IMF (2023), United Kingdom's Long-Run Prosperity Hinges on Ambitious Reforms, <https://www.imf.org/en/News/Articles/2023/07/11/cf-United-Kingdoms-Long-Run-Prosperity-Hinges-on-Ambitious-Reforms>

¹⁷ European Central Bank (2023), Eurosystem staff macroeconomic projections for the euro area, https://www.ecb.europa.eu/pub/projections/html/ecb.projections202312_eurosystemstaff~9a39ab5088.en.html

challenges. Focusing on governmental support through consumption and investment and the need for structural reforms is central to navigating these challenges and ensuring long-term stability and growth.

All observed countries navigate fiscal challenges and economic transformations amidst global uncertainties and evolving economic landscapes. Each nation struggles to balance fiscal sustainability with social and economic demands, such as ageing populations, climate change, and defence expenditures. While there are nuances in each country's approach, **the common thread is the imperative of managing public debt and fiscal deficits effectively to ensure long-term economic stability and growth.**






2. Methodology of the Best Practice Analysis

2.1. Country Selection

When selecting countries for best practice analysis, multiple discussions were held with the Beneficiary to identify the main areas of interest. In general, the aim was to identify the jurisdictions with the most relevant good practices that could be applicable to Finland and Estonia. Based on the discussions, following **criteria for country selection** were confirmed:

- **Experience** (number of years, positive feedback, recognition, types of reviews conducted) in conducting spending reviews (SRs).
- **Spending review impact** (% of state budget) on budget planning, change management and policy development.
 - Integration with budget planning (short and medium-term budgeting).
 - Linkage between evaluations & spending reviews.
- **Clear governance model** and mechanism, including follow-up to conducted spending reviews.
 - Line ministries involvement to the spending review process.
- **Clear objectives and scope** for spending reviews as management instruments.

Considering the selection criteria and discussions held with the Beneficiary and DG REFORM, following countries were selected for the best practice analysis:

	Denmark
	Ireland
	Latvia
	The Netherlands
	The UK

All of the selected countries have institutionalised spending reviews to some extent: either in the form of legislation, or government circular, or set of rules and principles. Selected countries also provide a good coverage on the spending review approaches, have clear governance structure, involve line ministries/departments to spending review process, have impact or potential impact on policy development.

The **Netherlands** and **Denmark** are recognised pioneers in conducting spending reviews. The **UK**, in turn, is recognised as one of the best examples of coordinated action during the COVID-19 crisis and has sufficient experience in conducting both comprehensive and targeted reviews. **Ireland** introduced the spending reviews in 2009, and despite facing some challenges, the country continues to increase the involvement of line departments in the process and improve the impact of spending reviews on

policymaking and budget planning. **Latvia** is a promising novice in the field of spending reviews: with spending reviews being introduced in 2016, there is a clear governance structure, involvement of line ministries and legislative support. Additionally, Latvian governmental setup is in a close proximity to Estonian and Finnish context, which contributes to the relevancy of the analysis of the best practices.

In addition to the countries already described above, **Germany** and **France** were also considered for the analysis. Similarly to Latvia, Germany has started conducting targeted spending reviews quite recently. However, Germany’s federal structure is significantly different from Finland and Estonia. Additionally, Germany’s governance structure, roles & responsibilities are not as clearly defined compared to the selected countries. Moreover, there is no specific legislative base for spending reviews, but they are conducted as part of the budgetary process. As for France, its inconsistent experience with spending reviews implementation and unclear involvement of line ministries were the main reasons in excluding it from the analysis.

2.2. Description of the Approach

To achieve the goal of finding critical success factors for the design, structure and governance of spending reviews, as well as their linkage to state budgeting and policy evaluation processes, the following tasks were carried out:

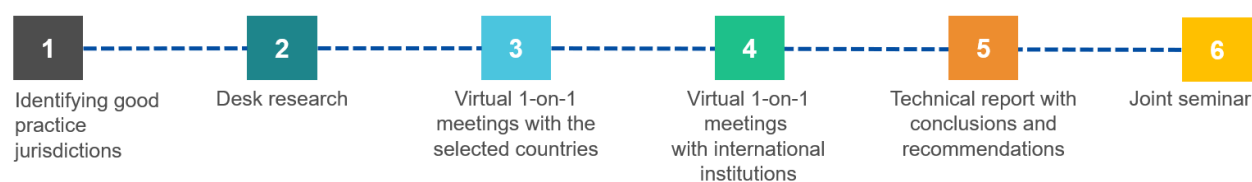


Figure 2. Deliverable tasks

Information for the analysis was gathered through the desk research and 1-on-1 meetings (knowledge sharing sessions) with selected countries, international institutions and other relevant experts.






Table 1. Overview of conducted knowledge sharing sessions

Date	Country	Organisation	Representatives
14 Dec 2023	UK	PwC UK	Philip Platts
26 Feb 2024	Latvia	Ministry of Finance of Latvia	Kārlis Ketners, Klinta Stafecka, Inese Lase
29 Feb 2024	Denmark	Ministry of Finance of Denmark	Jon Anders Ahlberg, Lars Høgsbro Østergaard, Jonas Sørensen
1 Mar 2024	Ireland	Department of Public Expenditure of Ireland	Jonathan King, Brendan Molloy
7 Mar 2024	The Netherlands	Ministry of Finance of the Netherlands	Thomas Niaounakis, Ruud van Raak
8 Mar 2024	The UK	HM Treasury	Nick Donlevy, Ryan Bennett, Hasan Kaya, Andrew Cornelius, Ella Baggaley-Simpson, Joe Barker

Date	Country	Organisation	Representatives
15 Mar 2024	-	OECD	Álfrún Tryggvadóttir
22 Mar 2024	-	IMF	Carlos Alberto De Resende, Ignatius de Bidegain, Takuji Komatsuzaki, Vincenzo Guzzo

Findings from the desk research and knowledge sharing sessions are presented following the same approach throughout the report. There is a separate chapter dedicated to each best practice country, which follows the described outline:

Table 2. Outline for country specific chapters

	Overview of spending reviews	<ul style="list-style-type: none"> • Historical overview (incl. statistics). • Overview of results and impact of previous spending reviews. • Key conclusions from the country analysis (process, organisation, regulation, integration with instruments).
	Spending review framework	<ul style="list-style-type: none"> • Legal context: <ul style="list-style-type: none"> ○ Legal acts regulating spending reviews. ○ Linkage to state budgeting process based on the existing regulation. • Organisational structure: <ul style="list-style-type: none"> ○ Governance model. ○ Roles and responsibilities. ○ Mechanism for ensuring impact on the political process. • Operational and technological setup (process and tools): <ul style="list-style-type: none"> ○ Spending review process description. ○ Topics selection. ○ Governance model. ○ Objectives and scope. ○ Analysis. ○ Results, decision, publication. ○ Implementation. ○ Linkage to budgeting process. ○ Overview of zero-based budgeting and their effectiveness (if any). ○ Manuals, guidelines. ○ Technology used in the process (if any).
	Policy evaluation framework and linkage to spending reviews	<ul style="list-style-type: none"> • Legal context. • Organisational structure. • Operational setup. • Linkage between evaluations and spending reviews.
	Case study	<ul style="list-style-type: none"> • Overview and purpose of the specific spending review. • Analysis outputs (SMART methodology).
	Success factors and challenges	<ul style="list-style-type: none"> • Based on SWOT analysis.

Key conclusions and recommendations are presented in the executive summary. For country comparison, a concise overview of each country is provided in a comparative table (see Chapter 8).

The main findings from the report were introduced through a joint seminar on 19 April 2024.





3. Denmark

3.1. Overview of Spending Reviews

The Danish spending review system is known as the “Special Studies Process”, and it dates back to the mid-1980s.^{18,19} It operates on an **annual cycle**, producing several **(from 10 to 15) spending reviews per year**. The Special Studies Process is typically led by the Ministry of Finance (MoF), and it has been **integrated into the annual budget process**. The reviews, initiated in connection with last year’s budget discussions, **serve as an input for the following year’s budget negotiations**.²⁰

Spending reviews in Denmark are characterised by the following features from the perspectives of the process, regulation, organisation and integration with other instruments:

Table 3. Overview of spending reviews in Denmark

 Process	 Regulation
<ul style="list-style-type: none"> • Denmark conducts annual targeted spending reviews as part of the budget preparation process. • Objective is to create fiscal space. • There are four types of SRs: standard targeted SRs, recurring SRs tied to multi-annual political agreements, strategic SRs, easily implementable smaller reviews. 	<ul style="list-style-type: none"> • No specific legislation on SRs in Denmark, the process is based on informal, cultural practices. • The legal fiscal framework consists of the Budget Act (Budgetlov) and annual finance bills.
 Organisation	 Integration with instruments
<ul style="list-style-type: none"> • The MoF leads the process in collaboration with relevant line ministries. • Steering Committee oversees various aspects of the process. • Contracted external consultants often conduct the actual SR analysis. • Decisions on topics and findings are made by the Cabinet’s Economic Coordination Committee. 	<ul style="list-style-type: none"> • Strongly integrated into the annual budgeting process. • No integration with policy evaluations.

The number of spending reviews conducted each year has varied, with no reviews in certain years and as many as 34 in others. **The demand for spending reviews fluctuates based on the government’s fiscal circumstances and policy imperatives**. When the spending review instrument was first introduced, Denmark utilised it extremely actively. Gradually, the level of review activity began to decrease over time, though an increase in reviews can be observed in the years following the Global Financial Crisis.²¹

¹⁸ Tryggvadottir, A. (2022). OECD Best Practices for Spending Reviews. OECD Journal on Budgeting, 22/1.

¹⁹ Lindquist, E. A., & Shepherd R. P. (2023). Spending Reviews and the Government of Canada: From Episodic to Institutionalized Capabilities and Repertoires. Canadian Public Administration 66, 247–267.

²⁰ Assi, R., Dimson, J., Goodman, A. & Andersen, R. (2019). Spending reviews: A more powerful approach to ensuring value in public finances. McKinsey & Company, <https://www.mckinsey.com/industries/public-sector/our-insights/spending-reviews-a-more-powerful-approach-to-ensuring-value-in-public-finances>

²¹ Robinson, M. (2014). Spending reviews. OECD Journal on Budgeting, 2013/2, 9.

Overall, Denmark has conducted more than 50 spending reviews on a wide range of topics from policing and courts to back-office functions, delivering combined annual savings of €1 billion across various programmes over the years.²² Savings measures in the reviews can vary from increasing efficiency and harmonising grants to improving incentives.²³

Originally, the primary objective of the Danish spending review was to create more space for new expenditure priorities. This is why savings targets have not been traditionally set as part of the spending review process. **The focus appears to have gradually shifted towards a greater emphasis on overall expenditure reduction for fiscal consolidation purposes.** Savings targets began to gain importance in the 2000s when a specific savings target of DKK 600 million (equivalent to 6% of police spending) was set in a review of the police budget for the first time. A savings target was also set in a major review of defence expenditure.²⁴ **This shift has led to an increase in both the number of reviews and the scope of expenditures which they cover.**²⁵

Denmark has a long history of conducting **annual, targeted spending reviews** to create more fiscal space.

Many of the spending reviews may also have **organisational and structural goals**. Over the past 10-20 years, Denmark has implemented significant reforms in various areas, including labour market policies, pensions and taxes, with the primary aim of boosting labour supply. These reforms have led to reduced expenditures and increased government revenue, creating fiscal room within expenditure ceilings and allowing for the implementation of new initiatives. However, with options for further structural reforms becoming limited, there is growing pressure on expenditure policies. Consequently, when embarking on spending reviews, a need for structural or organisational changes is analysed carefully. Structural reforms may not always be explicitly categorised as spending reviews and their integration within the spending review process depends on the governing administration's approach.²⁶

Denmark conducts **four different types of spending reviews**:



The primary type of spending reviews used in Denmark are **targeted spending reviews**, which focus on reviewing predefined areas of spending each year. The focus areas change from year to year, ranging from scrutinising the spending of a particular agency or specific programmes to even more precise scopes. Thus, the targeted reviews can be vertical or horizontal, but more typically they are vertical.²⁷



In addition, Denmark does **recurring spending reviews** that are tied to multi-annual political agreements. These recurring reviews are typically done every 4-5 years for bigger sectors, such as defence and security, social welfare and justice. In exchange for budgetary guarantees over

²² Assi et al., 2019.

²³ Doherty, L., & Sayegh, A. (2022). How to Design and Institutionalize Spending Reviews. IMF How To Notes, 2022/004, 9.

²⁴ OECD. (2013). 3th Annual Meeting Of OECD Senior Budget Officials Spending Reviews. OECD Public Governance Committee GOV/PGC/SBO(2013)6, 9.

²⁵ Robinson, M. (2014). Spending reviews. OECD Journal on Budgeting, 2013/2, 8.

²⁶ Knowledge sharing session with Denmark, 29 February 2024.

²⁷ OECD. (2011). Typology and Implementation of spending reviews – Discussion paper. OECD Public Governance Committee GOV/PGC/SBO(2011)9, 17.

a fixed period, these sectors undergo a process aimed at enhancing value for money and facilitating structural changes.



Strategic spending reviews, on the other hand, focus on areas such as IT-costs and cross-cutting functions to identify opportunities for improving organisational efficiency, effectiveness and performance across multiple areas of operation.



Directly implementable small spending reviews focus on small spending cuts catalogued by the MoF that do not require extensive analysis as a necessary prerequisite. This last type of review operates outside the standard process.²⁸

3.2. Spending Review Framework

Legal Context

The legal budgeting framework consists of the Budget Act (Budgetlov²⁹) and annual budget bills. The Budget Act contains a budget balance requirement in which the annual structural government deficit may not exceed - 0.5 % of GDP. This corresponds to Denmark's nationally set medium-term objective for the general government structural balance (the so-called MTO). The budget balance requirement applies at the time of the presentation of the draft budget for the following financial year, which takes place in August.³⁰

The governance framework in the Budget Act includes statutory expenditure ceilings for central government, municipalities and regions, which are set on the basis of expenditure growth in the medium-term projections within the framework of the medium-term objectives and targets for public finance. The expenditure ceilings establish an upper limit for the covered expenditure for a continuous four-year period. The expenditure ceilings constitute the annual framework for the organisation of expenditure and fiscal policy. The expenditure ceilings are binding and can only be amended by law in exceptional cases. Financial penalties support compliance with expenditure ceilings.³¹

The Budget Act does not include provisions on spending reviews, and there are no separate legal acts regulating spending reviews. That signifies that within the legislative framework, there is no formalised structure for conducting spending reviews.

²⁸ Knowledge sharing session with Denmark, 29 February 2024.

²⁹ LOV nr 547 af 18/06/2012.

³⁰ Danish Ministry of Finance. (n.d.). Finanslov og offentlige finanser. <https://fm.dk/arbejdsmraader/finanslov-og-offentlige-finanser/>

³¹ Danish Ministry of Finance. (2023). Udgiftslofter og statens finanser. https://fm.dk/media/27380/udgiftslofter-og-statens-finanser_november-2023_web-a.pdf

Organisational Structure

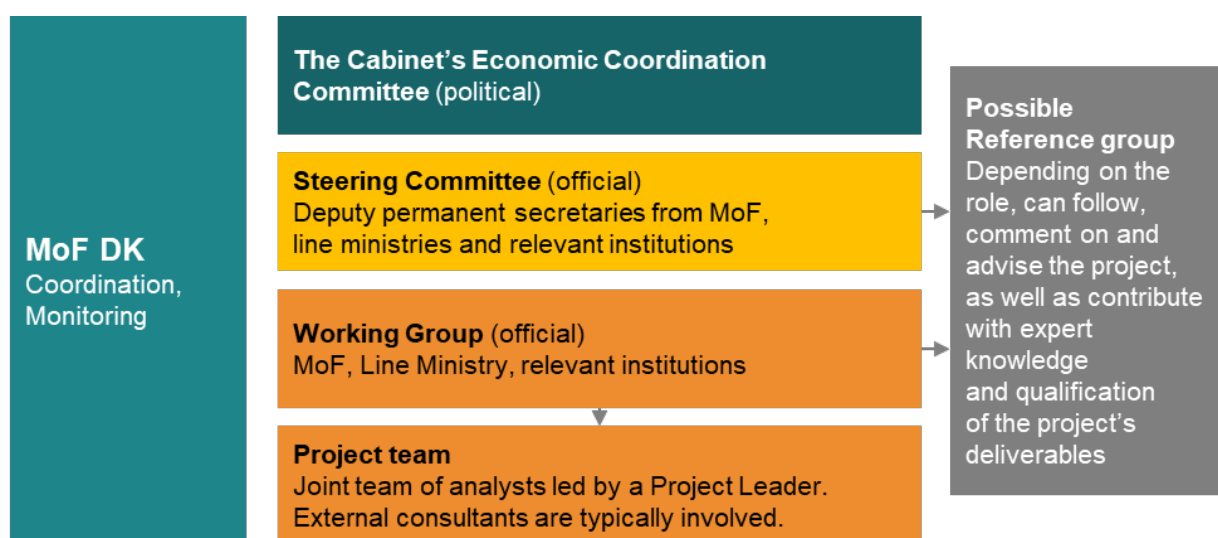


Figure 3. Governance model for spending reviews in Denmark

Ministry of Finance (MoF) plays a central role in the spending review process, serving as the primary **coordinator** of the reviews. The MoF initiates the process and collaborates closely with line ministries to steer the process. Its responsibilities also include providing quality assurance during the review process. Within the MoF, each division typically consists of a small team comprising 1-3 individuals dedicated to overseeing the spending of specific line ministries. These teams are entrusted with three main responsibilities: budgeting, serving as the primary point of contact for liaison between the line ministries and various government committees, and conducting spending reviews alongside other analytical tasks.³²

The Danish MoF and line ministries **collaborate** closely in the spending reviews.

Line ministries are closely involved in the spending review process in Denmark, despite initial opposition encountered during its inception. The role of the line ministries includes participating in the topic selection process, as well as helping the MoF steer and guide the process by participating in steering committees and working groups. This close cooperation can be attributed to the **possibility of split recommendations between MoF and line ministries**, fostering a sense of ownership and engagement. Moreover, the opportunity for line ministries to **retain the savings generated through the review** further incentivises their active participation and collaboration.³³

The Cabinet's Economic Coordination Committee (ECC) is the political decision-maker in the spending review process. ECC is chaired by the Minister of Finance and consists of the other economic ministers, such as ministers of taxation, business and employment, as well as climate and relevant line ministers. The ECC meets weekly and handles all matters with economic or budgetary consequences, as well as matters that involve intergovernmental coordination. The ECC's responsibilities in the spending review process include deciding on the review topics and the Terms of Reference and

³² Materials received from the Danish MoF, March 2024.

³³ Knowledge sharing session with Denmark, 29 February 2024.

approving the resulting reports.³⁴ The Committee also makes the **final decision** on the adoption of the suggested saving measures into the Budget.³⁵ The decision is made prior to the actual budget negotiations, even though exact timing of the decision is not clear.

A Steering Committee, typically composed of deputy permanent secretaries from MoF, line ministries and relevant institutions, is **established for each spending review**. The Steering Committee serves as a coordinating body responsible for overseeing various aspects of the review. Its tasks include planning, coordination and especially monitoring progress. It monitors the progress of the spending reviews, tracking milestones, identifying challenges and making adjustments to the process as necessary to ensure timely completion.³⁶

Working groups, typically consisting of heads of divisions from the MoF, line ministries and relevant institutions, are also established for each spending review. They are responsible for **carrying out the spending review** within the specific topic approved by the ECC. Under the working groups, **project groups** are established to **conduct specific analyses**. These project groups are typically led by project leaders, who are usually senior staff members from the MoF or sometimes appointed jointly with the relevant line ministry.³⁷

External consultants, including prominent management consultancies as well as smaller, locally based consultancies, are actively used for **conducting the detailed analysis** within the project groups of spending reviews. The rationale behind contracting external consultants to conduct the analysis is the need for specialisation. The MoF believes that convincing the government of the reliability of the proposed savings options requires high-quality reviews done by specialists. External consultants are used, particularly to gain knowledge and competencies in areas where ministries, including the MoF), do not have the necessary expertise, or where acquiring such knowledge for performing a task requires significant resources within a limited timeframe. As of 2014, the MoF had spent approx. DKK 306 million on the analysis performed by external consultants since 2009. The analyses contributed to identifying inefficiencies and a number of measures that the individual ministry areas and sectors have been able to use in their internal management and prioritisation. As a result, prioritisation leeway for more than DKK 5 billion in the period 2010-2013 was identified.³⁸

More recently, in response to general pushback regarding the dependence on external consultants, an **internal consulting unit was established within the Danish MoF**. Comprising 20 consultants, this unit is tasked with conducting spending review analyses in project groups for a range of ministries and agencies within Denmark.³⁹

Additionally, a **reference group** may be established to follow the spending review project, provide commentary and offer advice to the working group as well as the project group, depending on its role. The reference group can serve as valuable resource by

³⁴ Doherty, L., & Sayegh, A. (2022). How to Design and Institutionalize Spending Reviews. IMF How-To Notes, 2022/004, 17.

³⁵ Robinson, M. (2014). Spending reviews. OECD Journal on Budgeting, 2013/2, 9.

³⁶ Materials shared by Danish Ministry of Finance, March 2024.

³⁷ Materials shared by Danish Ministry of Finance, March 2024.

³⁸ Knowledge sharing session with Denmark, 29 February 2024; Danish Ministry of Finance. (n.d.). Udgiftspolitiske analyser i Finansministeriet. <https://fm.dk/media/16109/Udgiftspolitiskeanalyserifinansministeriet.pdf>

³⁹ Knowledge sharing session with Denmark, 29 February 2024.

contributing specialised expertise and qualifications to the project deliverables, ensuring high-quality outcomes.⁴⁰

Working groups usually **present their findings** to the ECC for a decision **in June**. The final report is intended to be a joint report agreed on by the Ministry of Finance and the line ministry; where the two disagree, separate recommendations may be made.⁴¹

Operational and Technological Setup

Spending Review Process

The Danish spending review process is closely tied to the annual State budgeting process.



Overview of Denmark's annual budgeting process:

The budgeting process in Denmark involves multiple stages of negotiation and reviews. The Constitution of Denmark mandates a significant deadline for the budgeting process: a proposal for a new budget bill (also called a Finance Act) must be submitted to the Parliament by the government no later than four months prior to the beginning of the financial year. As the financial year is the same as the calendar year in Denmark, the budget proposals must be submitted by 31 August each year. The process is conducted around this deadline.⁴²

The preparation for the budget bill begins earlier in the year across the government. Political negotiations on the budget take place over several months between the MoF and line ministries. The findings of spending reviews **serve as a basis for informing these budget negotiations, decisions on multi-annual budget agreements and as a consideration for input into the budget bill.**⁴³

When the budget preparation is completed, the Minister of Finance presents the government's draft budget to Parliament before 31 August. The draft is then referred to the Finance Committee which holds a technical review of the draft budget in early September, involving examination of the budget and political negotiations with all ministers. Later in September, Parliament holds a budget debate to discuss the draft budget.⁴⁴ Though sectoral committees hold no formal role in the process, they may review the draft budget and seek clarifications from the MoF on specific aspects. In parallel, the Minister of Finance engages in negotiations with political parties in Parliament about budget agreements. The adjusted final version of the budget bill is voted on and adopted by Parliament in December. After this, the budget may be amended by ministers applying to the Finance Committee for permission. The Committee typically approves approximately 200 amendments each year.⁴⁵

The spending review process in Denmark operates flexibly, relying heavily on established practices rather than formal legislation guiding it. **Civil servants operating within the MoF hold significant discretion in conducting each review**, most often drawing insights from past reviews. This leads to a certain level of **consistency** in organisational and procedural aspects across reviews. As the Danish spending review system might

⁴⁰ Materials shared by Danish Ministry of Finance, March 2024.

⁴¹ IMF. (2019). Chile: Technical Assistance Report—Introducing and Institutionalizing Spending Reviews. IMF Country Report No. 18/271.

⁴² Danish Ministry of Finance. (n.d.). Finanslov. <https://www.ft.dk/da/folkestyret/folketinget/finansloven>

⁴³ Assi et al., 2019.

⁴⁴ OECD. (2016). Denmark. OECD Journal on Budgeting, 2015/2, 95-96; Danish Ministry of Finance. (n.d.). Finanslov. <https://www.ft.dk/da/folkestyret/folketinget/finansloven>

⁴⁵ OECD. (2016). Denmark. OECD Journal on Budgeting, 2015/2, 95-96.

produce 5-15 spending reviews each year, the actual review process occurs within a relatively short timeframe.⁴⁶

The process is always guided by a **Terms of Reference (ToR)**, typically provided by the MoF in cooperation with the relevant line ministry and ultimately approved by the ECC. The ToR includes key aspects of the review such as scope, objectives, analysis parameters, cost base delineation, team composition, steering committee involvement, external consultant utilisation and time frame. Additionally, each ToR will typically outline a targeted savings amount to be identified as part of the review process.⁴⁷

While the length and the type of the reviews may vary, all reviews are guided by a **Terms of Reference, which includes a clear objective, scope and a savings target.**

The timeframe for spending reviews varies depending on the complexity and scope of each review, as well as specific objectives and requirements involved: while some reviews might be completed within a couple of months. The reviews have been usually conducted over the spring, aiming to have results prepared by the beginning of May. This timeline ensures that potential savings can be integrated into the initial draft of the upcoming fiscal budget scheduled for June. Consequently, **spending reviews primarily adopt a "vertical" approach**, concentrating on specific agencies or programmes, and centering on questions of efficiency to manage spending within budgetary constraints. This system does not support interdepartmental policy reviews and is not designed to offer avenues for extensive policy changes. Additionally, the length of time allocated for preparing spending reviews may depend on factors such as the availability of resources, the level of detail required and the urgency of the issues being addressed. As a result, the Danish government adopts a **flexible approach** to accommodate the diverse needs and circumstances associated with different spending review projects.⁴⁸

The timeline of the process has been recently extended. Beginning in 2024, the process will be longer: MoF will start the preparation for spending reviews intended for inclusion in the budget bill of 2026 in spring 2024. The contracting process and analysis phase are expected to start in autumn 2024. The finalisation of the spending reviews is targeted for spring 2025, with the decision on their inclusion in the budget bill planned for late summer 2025. These adjustments aim to facilitate more thorough review and provide additional time for contracting external consultants and enhancing overall efficiency.⁴⁹

Selection of topics

There are no standard review processes to guide the selection of topics.⁵⁰ The topics are selected on a discretionary annual basis, or in rotation based on a cycle of 4-5 years.⁵¹ The review topics are **formally nominated by the MoF** based on suggestions

⁴⁶ OECD. (2011). Value For Money - Country Assessment of Denmark. OECD Public Governance and Territorial Development Directorate, 32nd Annual Meeting of OECD Senior Budget Officials, Luxembourg 2011, 10-11.

⁴⁷ Knowledge sharing session with Denmark, 29 February 2024.

⁴⁸ Knowledge sharing session with Denmark, 29 February 2024.

⁴⁹ Knowledge sharing session with Denmark, 29 February 2024.

⁵⁰ OECD. (2011). Value For Money - Country Assessment of Denmark. OECD Public Governance and Territorial Development Directorate, 32nd Annual Meeting of OECD Senior Budget Officials, Luxembourg 2011, 11.

⁵¹ Spasova, S., Atanasova, A. and Regazzoni, P. (2022). National monitoring frameworks for public social spending. An analysis of policies in 35 countries. European Social Policy Network (ESPN), Luxembourg: Publications Office of the European Union.

by analysts and desk officers within the MoF. Typically, the identification of potential topics takes place in the initial stages of budget preparation when budget analysts conduct their preliminary assessments. **If there is an indication that a specific programme or department is encountering escalating pressure on spending limits, analysts have the authority to propose it for potential review.** An internal screening process is conducted within the MoF to filter out ideas that may be too politically sensitive, resulting in a preliminary list of potential topics. This list is then shared with the relevant line ministries for further discussion. At this stage, **line ministries may express their preferences and propose their own alternative topics for consideration.**

Once the list of topic proposals has been finalised, they are presented to the Steering Committee and then finally ECC for approval. In the event of disagreements between the MoF and line ministries, it is possible to propose split recommendations. In that case, a finalised list will indicate which topics were recommended by the MoF and which were proposed by the line ministry. Ultimately, **the final decision is made by the ECC.** The process of selecting review topics is entirely incremental, without the aim of achieving comprehensive coverage of all major spending programmes within a specified timeframe.⁵²

Analysis

The analysis phase is tailored to address the particular needs of the relevant sectors and institutions. **The focus of the analysis is typically on understanding the composition of the cost base of the programme or institution under review.** This involves assessing expenditures related to salaries, procurement and assets, and mapping out how resources are utilised across the institution under review. Once the cost base analysis is completed, further assessments are made, including legal analysis and the formulation of hypotheses regarding core functions and activities. For instance, considerations may be made regarding the potential for digitisation or automation of certain processes.⁵³

External consultants typically carry out the actual analysis of the spending reviews.

Benchmarking organisational entities within the policy area is often used to guide the analysis when focusing on increasing efficiency. Examples include benchmarking procurement costs across schools, administrative costs across police stations, and time spent in direct contact with citizens and companies across job centres. Subsequently, the specific actions and behaviour that make up best practices can be identified, and the potential savings of spreading best practices across relevant entities can be assessed.

The actors in this stage of the review process may vary as there is significant variation in terms of who conducts the spending reviews in Denmark. Some reviews are conducted solely by the MoF, while others utilise a process involving more actors. In smaller reviews, the organisation and procedures will be less formalised and the review will be conducted internally by MoF with contact with the relevant line ministry. **Most often the analysis is conducted by external experts or consultants overseen by the Steering Committee.** They are contracted especially for larger, more in-depth reviews that require specialised expertise. The line ministry will contribute with facts – as information asymmetry is

⁵² OECD. (2011). Value For Money - Country Assessment of Denmark. OECD Public Governance and Territorial Development Directorate, 32nd Annual Meeting of OECD Senior Budget Officials, Luxembourg 2011, 11.

⁵³ Knowledge sharing session with Denmark, 29 February 2024.

inevitable – and will be involved in vetting conclusions of the review. The MoF may play an inquisitorial role, challenging established views and procedures.⁵⁴

Results, Implementation

When the review is completed, the results are presented first to the Steering Committee and then to the ECC by the MoF and the involved line ministry. The results may be presented in the form of a PowerPoint presentation or a Word document, containing background information, the process, the analysis and the recommendations. The recommendations may be split. The length and level of detail in the report may vary, contingent upon the consultancy engaged in the analysis and the breadth of the spending review's scope. **Typically, 20-30 identified individual savings items are presented in the report and assessed in terms of their impact and implementability. The results may also include several packages or initiatives with varying levels of severity.**⁵⁵

Additionally, **a selection process may be employed** to determine which saving options are included in the report presented to the committees. This selection process depends on the specific circumstances of each case, aiming to present a curated catalogue of potential savings items to the committees for consideration. The goal is to ensure that the recommendations are as precise as possible to make them easier to implement in the budget bill, considering factors such as implementation timelines, as well as both short-term and long-term impacts of the proposed measures.⁵⁶

The Economic Coordination Committee decides whether to implement the review's recommendations in the budget proposal for the upcoming year and the subsequent three years. Any required legislative changes are proposed to Parliament. In the case of recurring spending reviews that are tied to multi-year political agreements, the parties involved in the budget agreement commit to voting in favour of these changes to implement the identified savings, which is crucial given Denmark's typical minority governments. The line ministries are responsible for implementing the recommended measures relevant to their sectors. There are no formal mechanisms to ensure implementation from the MoF's side. **The MoF does not conduct follow-ups after the completion of spending review, unless there is a political agreement to follow up on a certain institution or programme.**⁵⁷

Publication

The decision to publish or make reviews publicly available rests with the ECC, typically occurring after the government decides on recommendations.⁵⁸ The publication of spending reviews varies; **most typically, spending reviews are not published.** When a spending review report is published, it may be released either by the relevant ministry or by the external consultants contracted for the review process. **There is no single publication site online dedicated to spending reviews.** Previously, yearly report focusing on state expenditures were published, aiming to build public support and

⁵⁴ OECD. (2011). Value For Money - Country Assessment of Denmark. OECD Public Governance and Territorial Development Directorate, 32nd Annual Meeting of OECD Senior Budget Officials, Luxembourg 2011, 11.

⁵⁵ Knowledge sharing session with Denmark, 29 February 2024.

⁵⁶ Knowledge sharing session with Denmark, 29 February 2024.

⁵⁷ Knowledge sharing session with Denmark, 29 February 2024.

⁵⁸ OECD. (2011). Value For Money - Country Assessment of Denmark. OECD Public Governance and Territorial Development Directorate, 32nd Annual Meeting of OECD Senior Budget Officials, Luxembourg 2011, 11.

assurance for proposed budget cuts. This practice has diminished due to time constraints and lack of political interest.⁵⁹

3.3. Policy Evaluation Framework and Linkage to Spending Reviews

Legal Context

Policy evaluation forms an important element in the decision-making processes of Denmark. It is most commonly conducted in the form of ex-ante **socio-economic impact assessments** (*samfundsøkonomisk konsekvensvurdering*) to provide a systematic quantification of the advantages and disadvantages of measures of all kinds. Socio-economic impact assessments are also regarded as a tool for prioritising different spending proposals and assessing long-term direct and indirect effects for the economy, environment, nature and health. The assessments include cost-benefit analysis and cost-effectiveness analysis.⁶⁰

However, Denmark has not developed a legal framework for policy evaluation, nor has it created a supportive policy framework to provide strategic direction.⁶¹

Organisational Structure

The MoF gives central guidance on ex-ante socio-economic impact assessments which provides basic guidelines for how evaluation should be conducted and implemented step by step. The guidance, originally published in 2017, was updated in 2023.⁶² Following this guidance, line ministries may conduct assessments independently on measures related to their sectors with much freedom.

The roles and responsibilities regarding evaluation vary across ministries. For instance, policy evaluations in the Ministry of Justice are prepared by its Research Office⁶³, while Ministry of Immigration and Integration has outsourced the preparation of policy evaluations to external experts.⁶⁴ Ministry of Foreign Affairs, on the other hand, has established a specialised unit, the Department for Evaluation, Learning and Quality (ELK), to be responsible for evaluation.⁶⁵

Often impact evaluation is conducted by external academics or specialised think-tanks. These entities provide the analysis assessing the outcomes and impacts of initiatives implemented by the government.

In Denmark, autonomous agencies may assume an ad hoc role across the government when the parliament requests evaluation of a particular policy. However, there is no

⁵⁹ Knowledge sharing session with Denmark, 29 February 2024.

⁶⁰ Danish Ministry of Finance. (2023). Vejledning i samfundsøkonomiske konsekvensvurderinger. Finansministeriet, Center for Konkurrence, Selskaber og Forsyning, Juni 2023, pp. 11 and 15.

⁶¹ OECD. (2020). Improving Governance with Policy Evaluation: Lessons From Country Experiences. OECD Public Governance Reviews, OECD Publishing, pp. 38, 45.

⁶² Danish Ministry of Finance. (2023). Vejledning i samfundsøkonomiske konsekvensvurderinger. Finansministeriet, Center for Konkurrence, Selskaber og Forsyning, Juni 2023, pp. 11 and 15.

⁶³ Danish Ministry of Justice. (2023). Evalueringer. <https://www.justitsministeriet.dk/forskning/evalueringer/>

⁶⁴ For example, see Ramboll. (2018). Valuering af Integrationsgrunduddannelsen (IGU). <https://integrationsbarometer.dk/tal-og-analyser/filer-tal-og-analyser/arkiv/evaluering-af-integrationsgrunduddannelsen> It is policy evaluation conducted by Ramboll on behalf of the Ministry of Immigration and Intergration in 2018.

⁶⁵ Danish Ministry of Foreign Affairs. (n.d.). About Evaluations. <https://um.dk/en/danida/results/eval/what>

institution within the executive branch that inherently possesses expertise in policy evaluation across the Danish government.⁶⁶

Operational Setup

In evaluating value for money, Denmark employs a combination of methods. The most commonly used approach is a cost-benefit analysis, which includes assessing the total cost of ownership over the project's lifecycle. This is a method adopted by 89% of countries globally. In addition to this, Denmark also combines different approaches in its evaluation. For instance, it calculates and reports socio-economic value while also utilising the business case methodology. This allows for a more comprehensive evaluation of a project's financial viability and potential return on investment.⁶⁷

Unlike many OECD countries, Denmark does not have mechanisms for the promotion of quality, such as competence requirements for evaluators, peer reviews of evaluations, and systematic and meta-evaluations.⁶⁸

Denmark does not have a national evaluation database for storing and managing evaluation data across various policy areas. Instead, the country relies on performance indicators and performance measurements to assess effectiveness and efficiency of government policies and programmes.⁶⁹ While these performance metrics offer valuable insights into the outcomes and impacts of initiatives, the absence of a comprehensive evaluation database limits the ability to conduct cross-sector analyses and comparisons. As a result, evaluating the overall effectiveness of government interventions and identifying areas for improvement may be more challenging without a unified repository of evaluation data.

Linkage between Evaluations and Spending Reviews

In Denmark, **spending reviews and policy evaluation are not closely linked.** Spending reviews and policy evaluation are both instruments that are used in Denmark to evaluate public policies, but they are mostly separate instruments. Regular impact evaluations are not conducted or used as part of the spending reviews, which focus primarily on assessing operating expenditure. Neither does Denmark systematically use impact evaluation as a selection criterion during topic selection for spending reviews. **However, during the spending review process a certain type of evaluation is conducted to understand how the quality of service will be affected by potential cost-saving measures.** For instance, if administrative processes are recommended to be digitised, the working groups assess whether such a transition would yield improvements or diminishments in the institution's output quality.⁷⁰

Instead, policy evaluation is often conducted in other contexts, such as after implementing a reform. Policy evaluation is also conducted occasionally on specific

⁶⁶ OECD. (2020). Improving Governance with Policy Evaluation: Lessons From Country Experiences. OECD Public Governance Reviews, OECD Publishing, pp. 60.

⁶⁷ OECD. (2020). Improving Governance with Policy Evaluation: Lessons From Country Experiences. OECD Public Governance Reviews, OECD Publishing, pp. 57; OECD. (2019). Budgeting and Public Expenditures in OECD Countries 2019. OECD Publishing.

⁶⁸ See table 3.1 from OECD. (2020). Improving Governance with Policy Evaluation: Lessons From Country Experiences. OECD Public Governance Reviews, OECD Publishing, pp. 91.

⁶⁹ Knowledge sharing session with Denmark, 29 February 2024.

⁷⁰ Knowledge sharing session with Denmark, 29 February 2024.

appropriations, sometimes involving the establishment of large-scale commissions to scrutinise past policies. Impact evaluation is conducted typically in policy domains at the local and regional levels, such as the Danish employment system. Currently, a group of experts is actively engaged in reviewing the Danish employment system to evaluate the impact of specific services on unemployment rates. While the MoF provides support for these evaluations, it does not spearhead them; rather, they are primarily anchored within the respective line ministries.⁷¹

3.4. Case Study

The Danish Ministry of Finance recommended the selection of a **2017 spending review on the Danish Defence sector** (*Budgetanalyse af Forsvaret 2017*)⁷² as the designated case study. This selection stands as a good example of a recurring spending review that is tied to multiannual political agreements.⁷³ The 2017 spending review is linked to the Danish Defence Agreement for 2013-2017 and the following Agreement for 2018-2023. Additionally, it serves as a good example of a spending review that was conducted primarily by external consultants, with certain consultancy firms carrying out the analysis for the review.

The 2017 spending review on the Danish Defence, initiated by the Ministry of Defence and the Ministry of Finance, aimed to provide a comprehensive assessment of the defence budget and to identify efficiency potential across the defence sector. Its main objective was to assess three focus areas (operations, equipment/IT and cross-cutting services) and identify efficiency improvements for each area. For 2017 spending review, the ministries set an annual savings target of 600 million DKK for operations, 250 million DKK for IT, and a minimum of 100 million DKK for cross-cutting services. Its secondary objective was to map the relationship between tasks and finances for operational capacities to assess the financial impact of scaling activities. The review was mandated in the previous settlement agreement from 2013-2017, continuing the optimisation process initiated in that agreement.⁷⁴

The review report consists of an executive summary and results of the analysis for each focus area and objective. Two supplementary documents were also published providing detailed information of the analysis conducted during the review.⁷⁵ The Defence review was carried out over six months, from February to August 2017 and published online by the Ministry of Defence.

⁷¹ Knowledge sharing session with Denmark, 29 February 2024.

⁷² The Danish Ministry of Defence. (2017). Konsulentrapport Budgetanalyser af Forsvaret 2017.

<https://www.fmn.dk/globalassets/fmn/dokumenter/forlig/-konsulentrapport-budgetanalyser-af-forsvaret-2017-.pdf>

⁷³ Danish multiannual political agreements, negotiated every 3-5 years, involve all political parties in Parliament and are independent of the election cycle. Agreements are done for major political fields, such as tax reforms, as well.

Drent, M. & Meijinders, M. (2015). Multi-year Defence Agreements: A Model for Modern Defence? Clingendael: the Netherlands Institute for International Relations. <https://www.clingendael.org/publication/multi-year-defence-agreements-model-modern-defence>

⁷⁴ Danish Ministry of Defence. (2012). The Danish Defence Agreement 2013-2017.

https://www.fmn.dk/globalassets/fmn/dokumenter/forlig/-eng_forligstekst-2013-2017-inkl-bilag-.pdf

⁷⁵ The Danish Ministry of Defence. (2017). Konsulentrapport Budgetanalyser af Forsvaret 2017 Materialesamling – Del 1. <https://www.fmn.dk/globalassets/fmn/dokumenter/forlig/-materialesamling-del-1-budgetanalyse-af-det-operative-omraade-.pdf> and The Danish Ministry of Defence. (2017). Konsulentrapport Budgetanalyser af Forsvaret 2017 Materialesamling – Del 2. <https://www.fmn.dk/globalassets/fmn/dokumenter/forlig/-materialesamling-del-2-det-understoettende-materiel-og-it-omraade-.pdf>

The review utilised a specialised approach by arranging the analysis and structuring the organisation around four distinct sections of the Defence based on the review objectives. Under a steering committee, there was a working group for each section. The working groups, consisting of representatives from MoF, Ministry of Defence, Defence Command (*Værnsfælles Forsvarskommando*) and Ministry of Defence's Material and Procurement Agency, as well other relevant government agencies, guided the overall direction of the analyses and ensured that the targets were reached. All working groups were supported by underlying project groups, involving the consultants, that were responsible for the actual analysis and developing the material. Quality assurance of the calculations and the finances were done by a specially established Working Group on Economics (*Arbejdsgruppe Økonomi, AGØ*).

During the spending review process, an extensive mapping of three analysis areas was conducted, generating over 40 efficiency improvement proposals. Selected proposals underwent further analysis, while a methodological approach was developed and applied to map the connection between tasks and finances across 15 capacities. A number of efficiency proposals identified during the spending review process (e.g. increased use of simulation in training) were discontinued due to insufficient returns, time constraints and conflicting proposals. Project teams also carried out an impact assessment for certain proposals, such as personnel reductions. The assessments were made in a combined bottom-up and top-down approach based on staffing levels, impact of position closures, and strategies for balancing reductions across commitments for minimal negative effects.

Finally, the feasibility and implementation potentials were assessed for all the recommended measures of the spending review. Implementation was planned over a five-year period, with the majority of the implementation activities scheduled for 2018 and 2019. In conclusion, the spending review produced several efficiency improvement proposals for the defence sector which were mostly incorporated into the Danish Defence Agreement 2018-2023:

>	Restructuring of the Army, Navy, Air Force, Special Operations Command and Defence Schools
>	Reduction in number of personnel; Optimised use of personnel groups
>	Optimisation of maintenance capacity
>	Consolidation and optimisation of IT in Defence

In general, the 2017 Spending Review on Defence can be summarised as follows:

Table 4. SMART analysis for the 2017 Spending Review on the Danish Defence

Specific	The spending review had a clear scope with three key focus areas and clear objectives for efficiency improvements: 1) operational area with targeted savings of at least DKK 600 million annually, 2) supporting equipment and IT services with targeted savings of DKK 250 million annually, and 3) cross-cutting operational services and administrative processes, with targeted savings of DKK 100 million annually. It also clearly outlined the process, roles and responsibilities and implementation approach to the suggested measures.
Measurable	The spending review did contain in-depth efficiency analysis to determine most cost-effective options . The development of some proposals was discontinued as a result. During the review, overlap between the efficiency improvement proposals was also considered which was calculated to be DKK 66-84 million.

Achievable	The review successfully identified potential efficiency savings of DKK 855-1,135 million for 2017-2022. 45 efficiency improvement proposals and a large number of underlying initiatives were identified across all three focus areas through the use of 8 levers (e.g., optimised use of staff resources, process optimisation, digitisation)
Relevant	Out of 45 efficiency improvement proposals, 39 were selected to be incorporated into the next multiannual Danish Defence Agreement 2018-2023. It means that all political parties represented in the Parliament agreed to the initiatives and their implementation.
Time-bound	Conducted from mid-February to mid-August 2017 and published in August 2017, the spending review was completed in a timely manner to be considered in the Autumn negotiations for the next multi-year political Defence Agreement for 2018-2023.

3.5. Success Factors and Challenges



Strengths

- Spending reviews in Denmark are **strongly linked with the annual budgeting process**. Spending review recommendations are adapted and reflected in the upcoming budget.
- Denmark has successfully built a **culture of cooperation between Ministry of Finance and line ministries**. Practices, such as splitting recommendations and being flexible with the Terms of Reference to allow the relevant line ministry to retain the funds saved, promote ownership among line ministries, enhancing their engagement. This strong cooperation has resulted in a strong and operational spending review framework.
- Line ministries view **spending reviews as a tool to gain valuable insights** into how money is spent, allocated and prioritised within the ministry that is under review, as they might lack detailed data about the activities of the agencies that fall under their jurisdiction.
- **Political involvement is relatively strong**. Top ministers are involved in the Cabinet's Economic Coordination Committee, making decisions on the topics, implementation etc.
- The practice of contracting **external consultants** brings specialised, technical expertise to the Danish spending review process and lessens the workload of the MoF. In Denmark, external consultancies have served as impartial mediators, facilitating dialogue between the MoF and other ministries.
- Denmark **clearly defines responsibilities** among the participants of the spending review process. Effective collaboration is ensured by a fixed meeting structure for decision-making and coordination forums across the process, facilitating effective communication of goals, progress and decisions in a timely manner.
- This **commitment to ongoing improvement** ensures that Denmark's spending review initiatives evolve to effectively address emerging challenges and opportunities.



Weaknesses

- The OECD has criticised Denmark for its **focus on vertical spending reviews**⁷⁶, as this approach does not allow for reviews of interdepartmental policies, nor does it offer possibilities for far-reaching policy changes or programme redesigns.⁷⁷

⁷⁶ Vertical spending reviews are reviews within a specific sector or area of focus, as opposed to horizontal reviews which examine spending across multiple sectors.

⁷⁷ OECD. (2011). Typology and Implementation of spending reviews – Discussion paper. OECD Public Governance Committee GOV/PGC/SBO (2011)9, 17.

- The long-term practices of **contracting external consultants** to conduct most of the detailed analysis work in the development of savings options has partially **resulted in a weaker knowledge base within the MoF**.⁷⁸ The use of external consultants is also costly, further straining financial resources.
- There is **no developed policy evaluation framework**. This hinders the systematic assessment of the impact of government policies and programmes over time, potentially limiting the ability of Danish policymakers to make more informed decisions. **Policy evaluations are not used in spending reviews**.
- There are **no mechanisms in place within the MoF to follow up on the implementation** and impact of spending review recommendations after the completion of the spending review. Ultimately, the absence of post-review follow-up mechanisms might somewhat undermine the impact of the spending reviews on making improvements in government expenditure and policy.
- Spending reviews are rarely published, resulting in a lack of transparency.



Opportunities

- **Use of more technology:** Embracing technology, such as artificial intelligence for screening spending data, presents an opportunity to streamline the Danish spending review process, enabling faster identification of areas for optimisation.
- **Developing evaluations:** A developed policy evaluation framework has the potential to enrich the Danish spending review process by providing valuable insights into government expenditure effectiveness, fostering evidence-based decision-making and promoting continuous improvement.



Threats

- Denmark has **recently established an internal unit of consultants** (approx. 20 consultants) within the MoF to run a spending review analysis for government agencies and ministries as a result of pushback against the usage of external consultants. While this move enhances the Danish spending review process in the long term, **it will take time to develop the team's skills and knowledge**. Establishing effective cooperation between the new unit and line ministries will also require effort to build strong relationships, potentially causing temporary slowdowns in spending review processes.
- **Spending reviews becoming less of a priority for the government**, in addition to varying degrees of cooperation from line ministries and politicians might affect the Danish spending review system in the future.⁷⁹

⁷⁸ Robinson, M. (2014). Spending reviews. OECD Journal on Budgeting. 2013/2, pp. 24-25.





⁷⁹ See OECD. (2024). 2023 OECD Survey on Spending Reviews and performance budgeting. 2023 OECD Survey on Spending Reviews and performance budgeting, pp. 20.

4. Ireland




4.1. Overview of Spending Reviews

Ireland’s history of spending reviews started in 2009, as it aligned with the European-wide adoption of spending reviews following the Global Financial Crisis. In total, there have been five spending review rounds after 2009 and the sixth round of spending review is underway. Since 2017, more than 170⁸⁰ formal spending review papers have been published with more Departments routinely assessing key policies and programmes as part of the process. Spending reviews in Ireland entail the following key elements regarding the process, regulation, organisation and integration with other instruments:

Table 5. Overview of spending reviews in Ireland

 Process	 Regulation
<ul style="list-style-type: none"> Objective was originally fiscal consolidation, currently efficiency and effectiveness evaluation + evidence-based policy making. A three-year cycle aiming to cover 1/3 of total expenditure each year. SRs cover a large variety of topics across all Departments. 	<ul style="list-style-type: none"> There is no specific legislation on SRs in Ireland. The Public Spending Code serves as a guide for evaluating, planning and managing current expenditure.
 Organisation	 Integration with other instruments
<ul style="list-style-type: none"> Department of Public Expenditure, National Development Plan Delivery and Reform (DPER), line departments, and Irish Government Economic and Evaluation Service (IGEES) are involved in the SR process and participate in the Steering Group. The Government considers completed policy evaluations in the policymaking process. 	<ul style="list-style-type: none"> Limited integration with the annual budgeting process. Spending reviews encompass policy evaluations.

Earlier spending reviews aimed at cutting spending as it was the focus after the crisis, yet more recent spending reviews have been used to promote spending efficiency and effectiveness in the context of fiscal space.⁸¹ The previously conducted spending review cycles are as follows:

	(i) The Special Group Report 2009
	(ii) The Comprehensive Review of Expenditure (CRE) 2012-2014
	(iii) The Comprehensive Review of Expenditure (CRE) 2015-2017

⁸⁰ Department of Public Expenditure, NDP Delivery and Reform. (2023). Mid-Year Expenditure Report 2023. <https://assets.gov.ie/264076/5884bcd2-6c07-40aa-9009-cd4eb8a0e93b.pdf>

⁸¹ Reidy, P., & Oyewole, V. (2020). The Spending Review Process in Ireland, Department of Public Expenditure and Reform. https://www.rgs.mef.gov.it/Documenti/VERSIONE-//Pubblicazioni/Strumenti_e_Metodi/la_valutazione_delle_politiche_publiche_e_la_spending_review/IRL_Spending-Review_Padraic-ReidyVictoria-Oyewole.pdf



(iv) The Spending Review 2017-2019



(v) The Spending Review 2020-2022

(i) The first spending review called “The Special Group Report 2009” was carried out in 2009 with the aim of reducing government expenditure, meeting fiscal targets and promoting stable expenditure policy. The 2009 review exposed a lack of data and a base of incomplete information. Despite these challenges, the review outlined how to save €5.3 billion and increase efficiency. Out of 271 savings suggestions from the report for all departments, 42 were fully implemented and 103 were partially implemented. An estimated €1.7 billion worth of expenditure saving measures were implemented.⁸¹

(ii-iii) After the first spending review cycle, Comprehensive Reviews of Expenditure (CREs) were established. CREs from 2012-2014 and 2015-2017 focused on enhancing efficiency and effectiveness rather than expenditure cuts, resulting in a 14% reduction from €63.1 billion to €54.1 billion over five years.⁸² **The Irish Government Economic and Evaluation Service (IGEES) was established in 2012 to inform evidence-based policy.**⁸³

(iv) After the 2017 Comprehensive Review of Expenditures, a new three-year spending review process was adopted, covering a third of expenditure annually. The process is supported by ministerial approval and aligns with the annual budgeting process.⁸⁴ **Since 2017, Spending Reviews expanded to include policy analysis and evaluation to enhance analytical expertise across departments. Ireland is now considering a return to a more traditional spending review format with a focus on costs.**

(v) The 2020-2022 cycle covered various sectors and topics, analysing expenditure, trends, and outcomes. Example papers include the “Analysis of the Social Housing Current Expenditure Programme” (2021) and “The assessment of the Distributive Efficiency of the Sports Capital and Equipment Programme” (2022).⁸⁵

Additionally, the 2023 Spending Review Process has recently ended with some papers still waiting to be made public. **Ireland continues to deploy a 3-year spending review cycle with more focus on cost analysis rather than policy evaluation type papers.** In 2023, changes were made to the administration and governance of the reviews following a consultation with stakeholders in the process. This included categorising the topics more thematically, giving more autonomy to sub-groups and having the Steering Group take a more strategic role. A total of 24 papers have been scheduled for completion in 2023, nine from DPER, 11 from other Departments and four joint papers, not all published as of February 2024. Based on the scoping papers for 2023, majority of the reviews were cost based or efficiency and effectiveness type reviews.

⁸² Department of Public Expenditure and Reform. (2019). Spending Review 2019 – Trends in Public Expenditure. <https://assets.gov.ie/25433/9d4cc67e9c584e7f8a8e9d42b87c67f2.pdf>

⁸³ OECD. (2020). The Irish Government Economic and Evaluation Service: Using Evidence-Informed Policy Making to Improve Performance, OECD Public Governance Reviews. <https://doi.org/10.1787/cdda3cb0-en>

⁸⁴ Reidy, P., & Oyewole, V. (2020). The Spending Review Process in Ireland, Department of Public Expenditure and Reform. https://www.rgs.mef.gov.it/Documenti/VERSIONE-//Pubblicazioni/Strumenti_e_Metodi/la_valutazione_delle_politiche_publiche_e_la_spending_review/IRL_Spending-Review_Padraic-ReidyVictoria-Oyewole.pdf

⁸⁵ Department of Public Expenditure and Reform. (2023). The Spending Review. <https://www.gov.ie/en/policy-information/7dc2b1-spending-review/>

4.2. Spending Review Framework

Legal Context

Currently, **there is no specific legislation regarding spending reviews in Ireland.** Instead, Ireland has a strong methodological framework around policy evaluation which is structured around multiple guidelines published by DPER. Over time, spending reviews have evolved to encompass different types of policy evaluations. While the Public Spending Code manuals were not specifically developed for spending reviews, they do contain methodological elements commonly used in such reviews, including value-for-money assessments and cost-benefit analysis (CBA).

The Public Spending Code⁸⁶ is a set of rules and procedures that ensure that the best possible value for money is obtained whenever public money is being spent or invested. The guide brings together all the guidance, instructions and value-for-money requirements for public expenditure. It sets out that Departments and agencies must adhere to certain standards across the appraisal, implementation and review activities involved in the different stages of the expenditure life cycle.⁸⁷ The Public Spending Code is divided central guidance materials and technical guidance series for a total of ten documents. Guides and guide series include:

Public Spending Code	Central Guidance materials	Central guidance materials set out (i) the value-for-money requirements for the evaluation, planning and management of public investment projects in Ireland, (ii) ex ante requirements and (iii) guidelines for public private partnerships.
	Technical Guidance Series	Technical Guidance Series include guides for (iv) quality assurance process, (v) regulatory impact analysis guidelines, (vi) value-for-money review (VFMRs) and focused policy assessment (FPAs), (vii) overview of appraisal methods and techniques, (viii) cost-benefit analysis, (ix) economic appraisal parameters and (x) measuring and valuing changes in greenhouse gas emissions in economic appraisals.

For financial analysis as part of the Public Spending Code, the **Financial Appraisal Guidelines**⁸⁸ set out the principles for conducting a financial analysis and provides supporting templates designed in the main for the conduct of projects under €1m and over €1m. Additionally, line departments may stipulate additional sectoral guidance which are accessible on websites of relevant departments.

Organisational Structure

Spending review process

As described in Chapter 4.1, the spending review process has undergone significant changes over time. **The current spending review process is well aligned with the budget cycle** in Ireland serving as an important source of information for the Budget discussions in September/October. In general, the 2023 process is conducted in three

⁸⁶ DPER. (2023). The Public Spending Code. <https://www.gov.ie/en/publication/public-spending-code/?fl=en#:~:text=All%20Irish%20public%20bodies%20are,across%20the%20Irish%20public%20service>

⁸⁷ Title with no author. Part III Ireland's Public Expenditure Framework in Comparative Perspective. <https://assets.gov.ie/180791/a6cd11a4-2586-4117-8bbf-25071eb0efc2.pdf>

⁸⁸ DPER. (2023). Financial Appraisal Guidelines. <https://www.gov.ie/en/publication/public-spending-code/?fl=en#:~:text=All%20Irish%20public%20bodies%20are,across%20the%20Irish%20public%20service>.

main stages (see Chapter 0): scoping, development and review, and finalisation and publication.

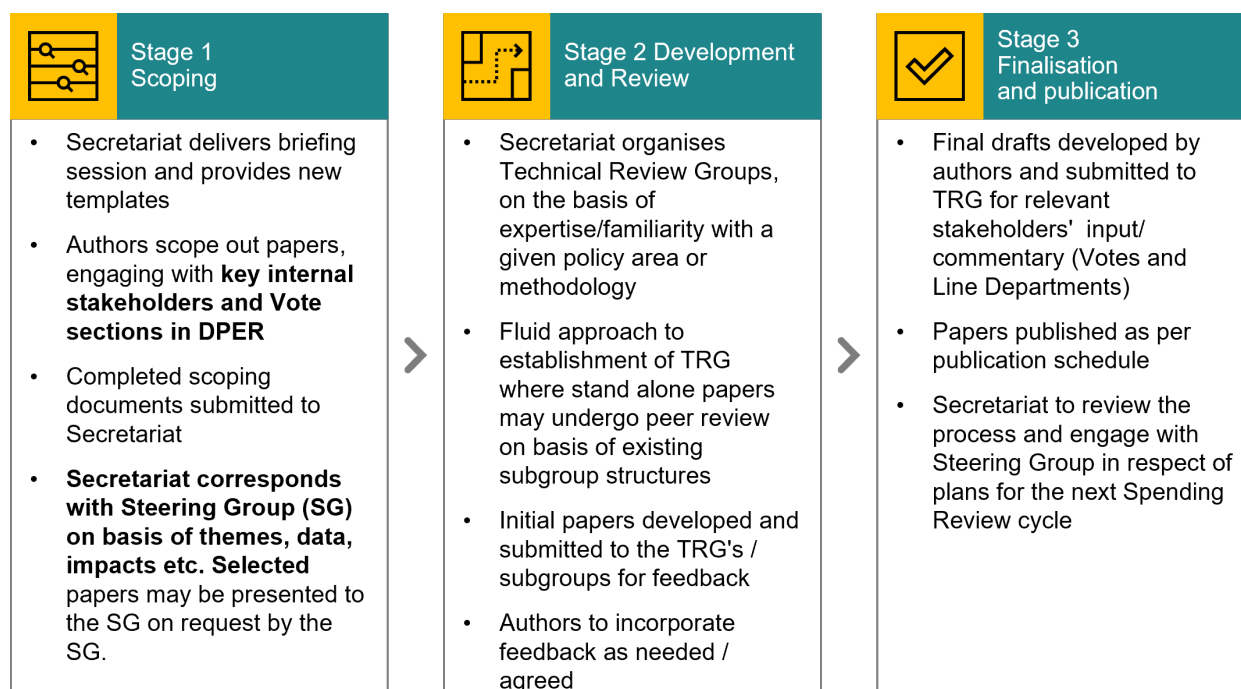


Figure 4. Spending Review Process for 2023 in Ireland⁸⁹

Similarly to the general process, the key tasks and timeline are subject to change each year. General timeline and key tasks for the 2020-2022 cycle are presented in Table 6.. Additionally, see Chapter 0 for changes in the 2023 Spending Review round accompanied by a detailed process description.

Table 6. Key annual tasks and timeline during the 2020-2022 spending review cycles in Ireland⁹⁰

Month	
January and February	Final tranche of publications from the previous year (if applicable). Planning for the year ahead begins.
February and March	Briefing sessions for line Departments and Votes to look for scoping papers. Peer review groups formed too.
April and May	Scoping Papers submitted to the Secretariat and the Steering Group
June and August	Papers developed and drafted. Allocated to peer review groups.
September	1st tranche of 'Summer' papers published by Minister of DPER.
October and December	Papers developed and drafted. Allocated to peer review groups.
End Dec	2 nd tranche of 'Winter' papers published by Minister of DPER.

⁸⁹ DPER. (2023). Spending Review 2023 – Briefing for Votes and Departments

⁹⁰ Department of Public Expenditure, NDP Delivery and Reform. (2023). The Spending Review <https://www.gov.ie/en/policy-information/7dc2b1-spending-review/#timeline-and-key-tasks>

The spending review’s results affect the budgeting process in Ireland by providing evidence-based policy insights, recommendations on how and where to allocate public money, and also broadening the Government’s toolkit within budgetary process.⁹¹ The spending reviews themselves are a complementary process to the budget one.

In its briefing documents,⁹² the Spending Review Secretariat emphasises that in addition to centrally driven processes such as the Budget process, there are multiple informal channels through which the analysis produced as part of the process can feed into policy deliberations. However, the importance of internal communication of the results within each Department is also emphasised. Policy insights produced as part of the spending review can feed into the decision-making process of Departmental Policy Units, Management Boards, Civil Service Management Board and other Senior Officials Groups.

Roles and responsibilities

The spending review process in Ireland involves Votes, line departments, the Department of Public Expenditure, NDP Delivery and Reform (DPER), IGEES and Central Statistics Office (CSO), each carrying different responsibilities regarding spending reviews as presented in Table 7.

Table 7. Stakeholders and their role regarding spending reviews

Stakeholder	Role
Government	Considers completed policy evaluations in the policymaking process.
Spending Review Secretariat	Oversees and helps to coordinate the process.
IGEES⁹³	Participates in the Steering Group and sub-groups, provides input and data for the Steering Group and sub-groups.
Line Departments	Participates in the Steering Group.
Votes	Spending Review authors engage relevant Vote sections when drafting and finalising papers for feedback and comments.
Subject Matter Experts	Authors and Departments may engage with subject matter/policy experts as part of their papers.

The Steering Group is composed of senior-level officials from across the Civil Service, however the exact composition has changed from cycle to cycle. The Group provides high-level oversight of the process and meets regularly throughout the spending review cycle to ensure the analysis is policy-relevant, impactful and supports the achievement of the spending review objective. The group also works with spending review sub-groups to review draft papers as they progress, and it reviews key messages and signs off on

⁹¹ Howlin, J., & F. Kennedy. (2016). Staff Papers 2016 – Spending Review in Ireland: Lessons for the future, Department of Public Expenditure and Reform. <https://assets.gov.ie/181489/35323381-a783-43eb-9228-9fd5013395b0.pdf>

⁹²Spending Review Secretariat. (2021). Spending Review 2021 – Briefing for Votes and Departments. <https://assets.gov.ie/118489/e6f2d5d9-b80b-491d-b44b-570256002f0a.pdf>

⁹³ Department of Public Expenditure, NDP Delivery and Reform. (2022). Irish Government Economic and Evaluation Service (IGEES). <https://www.gov.ie/en/organisation-information/8f949-irish-government-economic-and-evaluation-service-igees/>

papers prior to publication.⁹⁴ Steering Group for the 2023 spending review round comprised of DPER representatives (Secretariat, relevant Vote / Policy Officers (PO), IGEES), representatives at PO level from a selection of line Departments, external academic representatives and additional representation such as the CSO.⁹⁵

Steering Group composition for the 2020-2022 cycle

The Steering Group composition for the 2020-2022 cycle included 5 Assistant Secretaries from the DPER, 4 Assistant Secretaries nominated from the line ministries, 1 representative of IGEES Internal and External advisory Group, 1 Principal Officer from Central Section / Spending Review Section, 1 Head of IGEES, and 1 senior level official from the Central Statistics Office (CSO). To make sure the presentation between line ministries is balanced, the line departments will change their membership regularly, and the line ministries that will join the Steering Group will send a nominee when the Secretary General of the DPER invites them.⁹⁶

In general, **DPER is responsible** for spending review and the way in which spending reviews integrate with the annual budget process. The Minister of DPER is involved in the sign-off of the final draft reports ahead of publication. More specifically, the **Spending Review Secretariat** in the Central Expenditure Policy Section in DPER supports both the Steering Group and the sub-groups, and it plays an important role in the spending review process, providing **administrative support and coordination** throughout the entire process. The governance model in Ireland is illustrated in Figure 5.

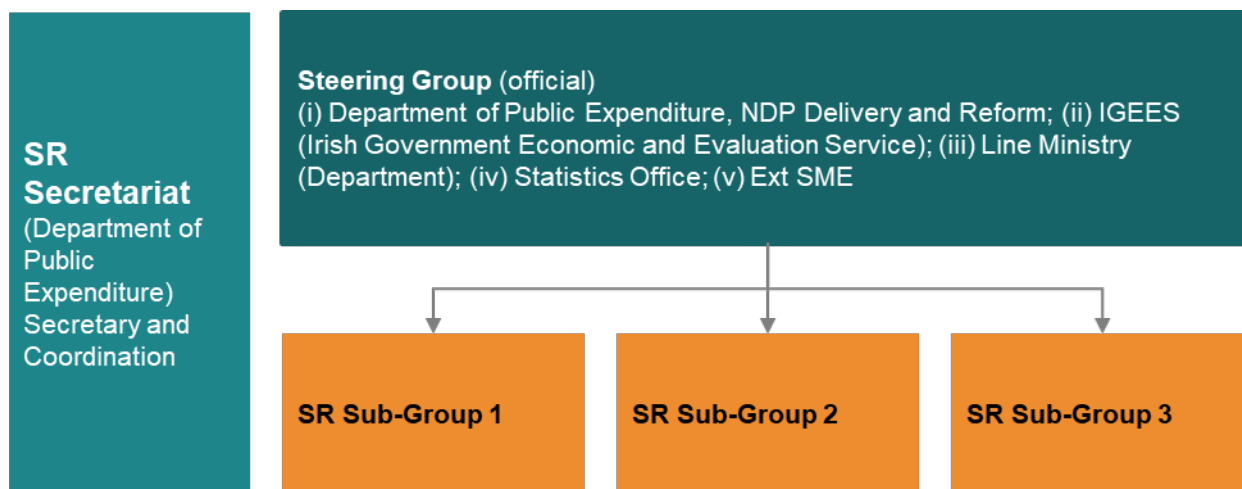


Figure 5. Governance model for spending reviews in Ireland

Sub-groups (or Technical-Review Groups) are formed to **conduct technical peer reviews**, provide feedback and notify on issues regarding the analysis produced as part of the spending review. This group typically includes four or five officials from across the IGEES network. This group collaborates with other departments to share data and jointly author papers. It also feeds policy insights based on data into all stages of the policy

⁹⁴ Department of Public Expenditure, NDP Delivery and Reform. (2023). The Spending Review. <https://www.gov.ie/en/policy-information/7dc2b1-spending-review/>

⁹⁵ Department of DPER. (2023). Briefing Round for 2023

⁹⁶ Spending Review Secretariat. (2021). Spending Review 2021 – Briefing for Votes and Departments. <https://assets.gov.ie/118489/e6f2d5d9-b80b-491d-b44b-570256002f0a.pdf>

process, including at budget time.⁹⁷ A total of six sub-groups were established in 2023 to examine papers in broad themes such as fiscal sustainability, social and health policy and capital investment/infrastructure.

Irish Government Economic and Evaluation Service (IGEES) is an integrated cross-Government service to enhance the role of economics and a value-for-money analysis in public policy making. The IGEES network consists of over 200 civil servant analysts working across the entire Civil Service. In addition to spending reviews, IGEES also publishes departmental papers, social impact assessments, evaluations, budget papers, value-for-money reviews and focused policy reviews. Some of the themes explored in these papers include impacts of the COVID-19 pandemic, Brexit, social housing, labour market, education, capital investment, healthcare, taxation and crime.

Operational and Technological Setup

Selection of topics

Spending reviews in Ireland cover a wide variety of topics across all Departments. The objectives and aims of the spending review cycle are influenced by the Government priorities, economic context and the State's capacity to deliver public services. **Over time, Ireland has taken the approach to set broader objectives and allow more flexibility in topic selection which has led to an increase in output across a broader range of departments** for the 2020-22 cycle.

Before the choice of topics can be made, **scoping papers** must be submitted to the Spending Review Secretariat. The scoping documents specify the author(s), objectives of the review, methodology, stakeholder engagement and communication, deliverable and timeline for the spending review. The Secretariat in the DPER coordinates the process.

In choosing topics to review, DPER and other departments consider programmes where efficiency and effectiveness could be improved, where issues of sustainability may be evident, and where there may be areas for potential reprioritisation. Ireland has **18 Departments** (equivalent of Ministry in the Estonian and Finnish context) altogether. In 2023, spending review documents with accompanying slide presentation have been published by the following Departments⁹⁸: Department of Enterprise, Trade and Employment, Department of Public Expenditure, NDP Delivery and Reform, Department of Health, Department of Agriculture, Food and the Marine, Joint Paper between Department of Transport & Department of Public Expenditure, NDP Delivery and Reform.

During 2017-2022, most spending reviews were conducted on healthcare topics (see Chapter 0) which similarly to previous cycles had the most papers produced in 2023. Example topics from the spending reviews conducted in 2023 include:



Hospital Performance: An Analysis of Unscheduled Care Activity 2017-2022 – Conducted by the Department of Health the findings of the paper either have overt or indirect implications for strategic policy development for Unscheduled Care in Ireland

⁹⁷ Department of Public Expenditure, NDP Delivery and Reform. (2023). The Spending Review. <https://www.gov.ie/en/policy-information/7dc2b1-spending-review/>

⁹⁸ Department of Public Expenditure, NDP Delivery and Reform. (2023). The Spending Review. <https://www.gov.ie/en/policy-information/7dc2b1-spending-review/>



Funding Innovation and Review of the Public Service Innovation Fund (PSIF) – Conducted by the Department of Enterprise, Trade and Employment this paper examines how the fund operated between 2019 and 2021, analyses PSIF outputs and trends and considers potential future funding options for the initiative.



Adopting a Well-being Approach to Assessing Climate Action in the Transport Sector – Conducted by the Department of transportation considers the current set of performance indicators monitored by the Department of Transport in relation to climate policy and makes recommendations on how they could be amended to place a greater focus on well-being.

Analysis

Depending on the available data and the characteristics of the topic the **analysis teams use various methodological approaches** including but not limited to desk based/field work; quantitative, qualitative and mixed methods. Techniques used include trend analysis, international benchmarking, cost-benefit analysis, counterfactual and other econometric modelling. Usual data sources are CSO data, survey data, other national and international datasets, administrative data incl. performance data, well-being indicators etc.

Results, Decision, Publication

All the conducted spending reviews with accompanying slide presentations for each year are published by the DPER on the Government's website⁹⁹. Executive summaries for all spending reviews are published as separate documents on the same website. Additionally short reviews of the success of the overall spending review cycles are accessible via the Mid-Year Expenditure Report.

4.3. Policy Evaluation Framework and Linkage to Spending Reviews

Over time, in Ireland, **spending reviews have evolved into a comprehensive descriptor encompassing all policy evaluations**. Since 2017 the scope of the Spending Review cycle has been broadened to include policy analysis and evaluation materials, with the aim of increasing the publication of reports from a wider range of departments. See Chapter 4.2. for the framework around policy evaluations. The aforementioned **Public Spending Code** (See Legal Context) brings together details on the obligations of those responsible for conducting reviews, evaluations, monitoring, appraisal and planning.

4.4. Case Study – Review of the Long-Term Illness Scheme

The case study "**Review of the Long-Term Illness Scheme**"¹⁰⁰ was a joint spending review conducted by the Department of Health and Department of Public Expenditure and Reform in **2022**. The Long-Term Illness (LTI) Scheme is overseen by the Primary Care Reimbursement Service (PCRS) within the Health Service Executive (HSE) which is a

The spending review examined **previous spending review** papers which had recommendations regarding the LTI.

⁹⁹ Government. (2023). Spending Review 2023. <https://www.gov.ie/en/collection/0d23d-spending-review-2023/>

¹⁰⁰ Health Vote, Department of Public Expenditure and Reform. (2022). Review of the Long Term Illness Scheme <https://assets.gov.ie/233688/ae54ab52-1574-40d5-a176-1ff75e268295.pdf>

publicly funded healthcare system responsible for the provision of health and personal social services.¹⁰¹ Through the LTI, patients receive all approved medications and appliances associated with sixteen eligible condition(s) free of charge without having to pay prescription charges. The scheme is limited only to products related to listed illness(es).

The paper analysed the LTI scheme to assess the drivers of growth, consider scheme policy issues and discuss recommendations on potential next steps as expenditure linked to LTI had surged by 175% since 2013, rising from €106 million to €292 million in 2021. Expenditure on LTI has almost tripled over eight years despite various policy initiatives and agreements being in place to stabilise drug costs, however average annual item cost had grown steadily since 2017. Concurrently, the number of claimants has also surged by 175%, escalating from 71,000 to 195,000 over the same timeframe.

The main factors influencing LTI expenditure which were examined were the number of people, disease-specific treatment costs, disease prevalence and pharmaceutical product usage and price. For example, from the analysis of disease prevalence it was concluded that while diabetes makes up the majority of claimants and expenditure within the LTI scheme, this does not appear to be indicative of an unusually fast-growing prevalence of diabetes within the state. In conclusion, the spending review produced several recommendations and policy considerations based on the conclusions drawn for analysed factors for better policy making:

>	Publish LTI Data for Years Prior to 2014
>	Collect more Detailed Claimant Data
>	Conduct an In-Depth Review of Prescribing Trends Within the LTI Scheme
>	Ensure the Scope of the Upcoming Department of Health Review is Broad and Considers Wider Equity Issues
>	Consider How Resources Could Be Best Targeted at Chronic or Long-Term Illnesses

For the structure of the report, the spending review was 24 pages long and included an executive summary, introduction and context, analysis, policy discussion, main conclusions and recommendations.

In general, the Spending Review 2022 can be summarised as follows:

Table 8. SMART analysis for the Spending Review 2022

Specific	The 2022 Spending Review included a well-defined scope and the aim of the paper , as well as references to previous Review's addressing LTI. The Review's aim was to establish expenditure trends across the scheme, particularly expenditure trends in relation to scheme expenditure growth.
Measurable	The 2022 Spending Review incorporated quantifiable metrics to assess the LTI Scheme activity and expenditure. The time-trend component of the Review included the number of persons on scheme, expenditure and scheme claimants by condition, condition cost per patient and condition cost per unit.

¹⁰¹ HSE. (n.d). About the HSE <https://about.hse.ie/>

Achievable	Key policy considerations for improving the long-term illness scheme were identified . Specific considerations included, for example core eligibility criteria, context change and the uncommon nature of the scheme in the EU context.
Relevant	The Spending Review's goal was to provide wide range of measures to improve public finances to provide a new government with options to choose from based on their priorities. The Department of Health committed to review the LTI scheme as part of a wider Sláintecare commitment to review the overall eligibility framework which considers the policy trajectory of the scheme as a whole.
Time-bound	Conducted during the 2022 Spending Review Round, the Spending Review 2022 adhered to a time-bound schedule .

4.5. Success Factors and Challenges



Strengths

- In Ireland, it is continuously underlined how the **collaborative** trend and the **buy-in** across departments to the process are crucial for the instrument to serve its purpose. In recent cycles, a **broader set of objectives and flexibility has led to an increase in output** across a broader range of Departments.
- The informal spending review procedure within Ireland is effectively managed and **coordinated** by the Spending Review Secretariat, which provides structured templates to streamline the process.
- Since the broadening of the spending review process scope in 2017, 16 out of 18 Departments have produced spending review papers, plus agencies such as Solas, the Courts Service and the Irish Prison Service.
- Ireland's unique **network**, IGEES, **unites specialists across sectors**, thereby facilitating information flow, sharing know-how and analytical capabilities and managing the strategic direction of all policy evaluations.



Weaknesses

- Even though papers are being generated by an increasing number of departments, **the overall amount of spending review papers generated in recent years has decreased**.
- In an effort to enhance the number of materials being produced under the spending review framework across departments, Ireland expanded the spending review cycle's scope in 2017. While this increased paper volume and departmental participation, it led to broader, less specific evaluations and recommendations in the reports. In regard to spending reviews, Ireland **struggles with resourcing issues and turnover of specialists**. An **increasing trend of unfinished papers** is reported.
- Additionally, **issues with data availability** limit the ability to review certain policy areas. This includes poor quality performance information/data.¹⁰²



Opportunities

- Ireland has opportunities to facilitate the spending review process with the **usage of more technology**, such as artificial intelligence for screening spending data, enabling faster identification of areas for optimisation.

¹⁰² 2023 OECD Surveys on Spending Reviews and Performance Budgeting – Country Fact Sheets

- Ireland has an opportunity to create a **separate framework for spending reviews and policy evaluations** to ensure more valuable insight from the instruments.



Threats





- Over time, **spending reviews in Ireland have become an umbrella term for all policy evaluations**, meaning spending review papers include different types of policy evaluation exercises as well. Currently Ireland has taken the approach to reverse this trend.
- The DPER voiced their **concern over the decreasing trend of papers** published since 2021. The total of 11 papers for 2023 is the lowest output since the start of spending reviews in Ireland.

5. Latvia

5.1. Overview of Spending Reviews

Latvian Ministry of Finance defines spending reviews as a process of developing and adopting savings measures, based on the systematic review of baseline expenditure, processes and policy areas. Latvia has been conducting spending reviews since 2015. Spending reviews in Latvia entail the following key elements regarding the process, regulation, organisation and integration with other instruments:

Table 9. Overview of spending reviews in Latvia

 Process	 Regulation
<ul style="list-style-type: none"> • Main objective: reprioritise public spending. • 3 types of SRs: strategic, technical and medium-term review. • The SR process is guided by the Terms of Reference (ToR) for the SR 	<ul style="list-style-type: none"> • SR process is regulated by the Law on Budget and Financial Management.
 Organisation	 Integration with other instruments
<ul style="list-style-type: none"> • SRs are coordinated and led by the MoF. • The Cabinet of Ministers approves the scope and decides on the implementation. • Line ministries carry out the analysis and an inter-institutional working group ensures objectivity and cross-sectoral coordination. 	<ul style="list-style-type: none"> • Strong integration with the annual budgeting process. • Spending reviews and policy evaluations are not integrated.

Over time, both legislation and procedural understanding have made significant improvements resulting in an increase in quality and budgetary coverage of spending reviews. **Spending reviews in Latvia are conducted on an annual basis and over time Latvia has adopted the Medium-Term and Comprehensive Spending Review as a step forward.**¹⁰³ The share of expenditures revised is depicted in Table 10.

Table 10. Spending review's budgetary coverage in Latvia.¹⁰⁴

	2023	2022	2021	2020
Share of expenditure on the general government budget basic functions revised in annual Spending review (%)	83%	86%	87%	73%

Purpose of spending reviews is to get clear answers to questions a) what is the benefit for society from invested resources; and b) how can the desired results be achieved more economically? Objective being **accountability** for policy outcomes and outputs, better policy outcome with less inputs and **regularly reprioritising** public spending.¹⁰⁵

¹⁰³ Ministry of Finance. (2023). Terms of Reference (ToR) for the Spending Review. <https://www.fm.gov.lv/en/spendingreview2023-0>

¹⁰⁴ Materials shared by the Ministry of Finance Latvia

¹⁰⁵ Ministry of Finance. (2023). Terms of Reference (ToR) for the Spending Review. <https://www.fm.gov.lv/en/spendingreview2023-0>

The Terms of Service for Spending Reviews¹⁰⁶ as well as other literature covering the spending review process in Latvia¹⁰⁷ distinguish **three main approaches to spending reviews: strategic, technical and medium-term review** which differ in their function, coverage, flow and intervention opportunities (See Appendix 0). These approaches, crafted from the international literature, serve as essential basic elements and a source of inspiration for the spending review process. However, **in practice the Latvian spending review experience is rather a combination of the approaches and does not diligently follow one theoretical approach.**

Spending review has over the years become an **integral part of medium-term budget development process**, as well as has proven to be an effective tool from which results provides financial resources for the sector priorities not only annually but also for the medium-term.¹⁰⁸ Since 2016, the spending review process in Latvia has identified €683.7 million worth of financial savings or efficiencies which is about 1.71% of the GDP. The spending reviews have also brought other than fiscal impact such as introducing “scorecards” which show the link between resources and policy goals, such as evaluation of real estate used for the needs of ministries, their subordinate institutions and other central state budget institutions.¹⁰⁸

5.2. Spending Review Framework

Legal Context

The spending review process in Latvia is regulated by the **Law on Budget and Financial Management** which was amended on 30 November 2015. The legislation remains rather broad as it **stipulates that spending review has to be a “continuous and systematic” instrument**, however not specifying the regularity and linkage to the budget process. Additionally, it **specifies the roles of the Cabinet of Ministers and MoF in the topic selection and implementation phases** (See spending review process description in Organisational Structure). Section 16.3 of the aforementioned law states:

1. “In order to implement the State policy in a more efficient and economic manner, and also to regularly optimise the budget expenditures and assess their conformity with the priorities and objectives laid down in development planning documents, the Cabinet shall ensure continuous and systematic State budget spending review.”
2. “The Cabinet shall concurrently take a decision on the scope of the State budget spending review and approve the schedule for the preparation of budget. The Minister for Finance shall, within the deadline specified in the schedule for the preparation of budget, submit to the Cabinet the results of the State budget spending review and

The Law on Budget and Financial Management Article 16.3 broadly defines the role of the **Cabinet** and **Ministry of Finance** in regard to the spending review process.

¹⁰⁶ Ministry of Finance. (2023). Terms of Reference (ToR) for the Spending Review. <https://www.fm.gov.lv/en/spendingreview2023-0>

¹⁰⁷ Ketners, K., (2020). SPENDING REVIEW AS ESSENTIAL PART OF PUBLIC SECTOR BUDGETING: LATVIAN EXPERIENCE. https://lufb.ltu.lv/conference/economic_science_rural/2020/Latvia_ESRD_53_2020-97-106.pdf

¹⁰⁸ Ministry of Finance. (2023). Terms of Reference (ToR) for the Spending Review. <https://www.fm.gov.lv/en/spendingreview2023-0>

suggestions for the use of these results in the process of developing the draft State budget law.”

The amendments to the Law on Budget and Financial Management, which came into effect on 1 January 2016, marked the official start of the Latvian spending reviews.¹⁰⁹

Organisational Structure

Spending review process

The spending review process in Latvia is divided into four main stages: **objectives and framework, policy options, decision-making and implementation stage** (See Appendix 00).¹¹⁰ Each stage has a defined objective and key steps which guides the spending review process from the start to the implementation stage. The timetable for executing the stages is presented in Table 11.

Table 11. Spending review process in Latvia

Main stakeholders have different tasks during the spending review process, the stages are:												
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Topic Selection	█											
Analysis, preparation of proposals, working group meetings with line ministries						█						
Preparation of the report on the spending review and its protocol decision, submission to the Cabinet of Ministers											█	

Line ministries implement the decisions made by the Cabinet of Ministers within the specified deadlines and inform the Ministry of Finance about their implementation progress during the next year's spending review. The Ministry of Finance includes information on the status of the adopted decisions in the next spending review report, thereby informing the Cabinet of Ministers.

Roles and responsibilities

In Latvia, the **roles and responsibilities are well-defined for all stages of the process**. The main responsibilities are divided between the Ministry of Finance, line ministries, Cabinet of Ministers and the **Inter-institutional working group** which consists of members from Ministry of Finance, Bank of Latvia, State Chancellery and State Audit Office.¹¹¹

¹⁰⁹ Ketners, K., (2020). Spending Review as Essential Part of Public Sector Budgeting: Latvian Experience. https://llufb.llu.lv/conference/economic_science_rural/2020/Latvia_ESRD_53_2020-97-106.pdf

¹¹⁰ Ministry of Finance. (2022). Spending review process in Latvia. <https://www.fm.gov.lv/en/media/11038/download>

¹¹¹ Ministry of Finance. (2023). Terms of Reference (ToR) for the Spending Review. <https://www.fm.gov.lv/en/spendingreview2023-0>

Table 12. Main stakeholders and their role regarding spending reviews

Stakeholder	Role
Cabinet of Ministers	Plays an important role in the scoping and decision-making stages.
Ministry of Finance	Supports, coordinates and leads the spending review process throughout. Monitors the implementation.
Line ministries	Support throughout the SR in determining the scope, contribute analysis, develop proposals. Responsible for implementation.
Inter-institutional working group	Contributes data, provides input for scope, ensures objectivity, provides macroeconomic data, cross-sectoral coordination and input for nation-wide policy development.

Ministry of Finance plays an important role in all stages of the spending review acting as the main **coordinating** body of the process. During the topic selection phase, The Budget Policy Development Department in cooperation with the Budget Department, both under Ministry of Finance, are involved in defining the scope of the spending review and submitting it to the Cabinet of Ministers. Based on the defined scope MoF requests and analyses the available/requested data, carries out international practice studies, prepares calculations/proposals and submits the prepared report and its protocol decisions to the Cabinet of Ministers.

The Cabinet of Ministers examines and approves the scope of the spending review at the same time as the schedule for the preparation of the budget for the following year ensuring high level political involvement in the spending review process. The Cabinet of Ministers also **decides** on the implementation of the spending review recommendations, based on the results and suggestions submitted by the Ministry of Finance.

Line ministries, during the topic selection phase, submit proposals to MoF for policy change and process improvement. During the analysis phase, line ministries **carry out an analysis** of possible policy changes/development of processes, analyse the implementation of the development part (whether the measures are implemented according to the original objective and the planned amount) and prepare proposals. Additionally, line ministries shall make proposals, participate in the analysis of measures, comment and coordinate the informative report¹¹², fiscally neutral proposals for ensuring budget priorities can be submitted. During the implementation, phase line ministries **implement the decisions** made by the Cabinet of Ministers. Figure 6 depicts the governance model for the spending review process in Latvia.

¹¹² Aggregated report/document submitted to the Cabinet of Ministers. For example: <https://tap.mk.gov.lv/mk/tap/?pid=40358092>

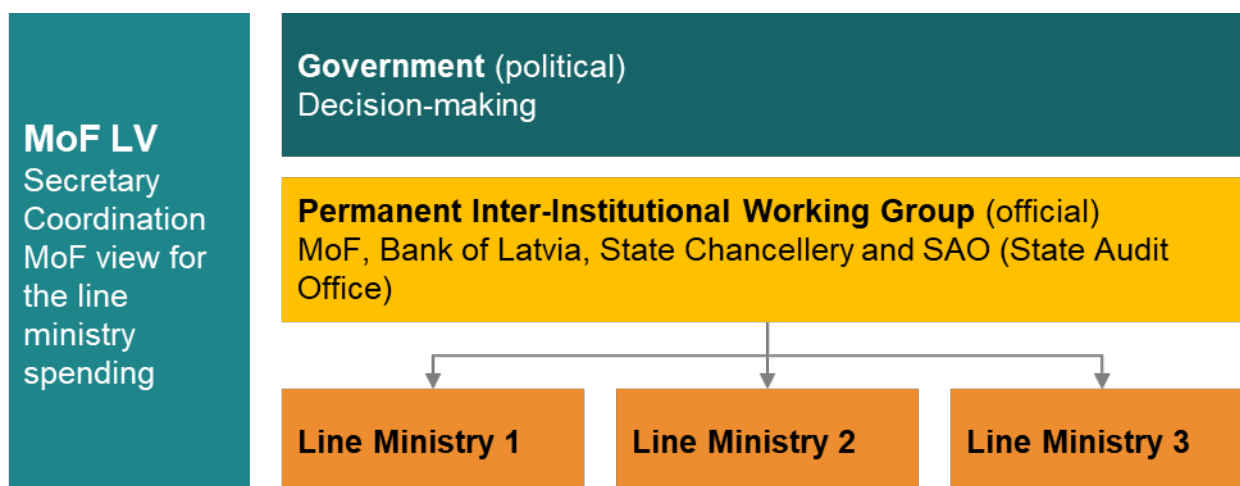


Figure 6. Governance structure for spending reviews in Latvia.

The inter-institutional Working Group is involved in the spending review process from the topic selection stage to the submission to the Cabinet of Ministers. It submits proposals for the scope, including analysis of macroeconomic data, listens to proposals from the Ministry of Finance and line ministries, expresses opinion on policy recommendations and receives, comments and coordinates the informative report. The institutional representation in the working group is considerably large: the State Audit Office (observation, independent assessment), Bank of Latvia (macroeconomic data) and State Chancellery (policy development and implementation) plays an important role in the success of the spending review. Additionally, experts from the State Chancellery participate in the working group and provide a view on the linkage between budget expenditure and policy objectives and results (see Chapter 5.3).

Operational and Technological Setup

Topic selection

As mentioned in Organisational Structure and Operational Context, the topic selection **process involves Ministry of Finance, line ministries, the Inter-institutional working group and the Cabinet of Ministers.** Ministry of Finance is responsible for defining the scope of the spending review and in doing so is guided to draw inspiration from public news, topics from the reporting decisions of previous spending reviews, information analysis and international practice.

Given the diverse subjects of spending reviews, the analytical approaches also vary significantly. Some of the methods from the spending review analyses undertaken in 2022 included **medium-term cost analysis** of ICT measures and systems maintenance, **analysis of financing policies** of the health sector and **analysis of performance indicators** of the basic functions of the basic budget.

Manuals and guidelines

In addition to the aforementioned legislation, the current spending review process is guided by the **Terms of Reference (ToR) for the Spending Review**¹¹³ published on the official website of Ministry of Finance. The Terms of Reference include overview of legislation guiding the spending review process, definition purpose and objectives of

¹¹³ Ministry of Finance. (2023). Terms of Reference (ToR) for the Spending Review. <https://www.fm.gov.lv/en/spendingreview2023-0>

spending reviews, overview of the process, different approaches, roles and responsibilities and timetable for the spending review serving as a central source of information for spending reviews.

Results, Decision, Publication

The report of the spending review presents the outcomes and suggestions of the analysis, along with the possible actions to save money and their effect on the public finances and the people. **The report of the spending review usually contains following three elements**, but is not limited to these:

- First one being the **implementation of the result of the previous spending review** in which last year's spending review implementation is analysed and conclusion are made.
- Second one being the **horizontal measures for redistribution of financial resources in favour of current priorities**, where the financial resources are analysed to find ways to redistribute funds in favour of current government's priorities.
- Last and third is the **analysis of financing policies under the supervision of line ministries** in which the financing policies of chosen line ministry is analysed **to find ways to be more efficient with the public money**.

When the report is concluded, the Minister of Finance sends the report to the Cabinet of Ministers, which makes the decision on how to apply the spending review outcomes in the budget planning process.¹¹⁴ The decision on the spending review results is made by the Cabinet of Ministers, which considers the spending review report by the Ministry of Finance, the opinions of the line ministries and the feedback from the inter-institutional working group. The decision is based on the criteria of fiscal sustainability, economic efficiency, social equity and political feasibility. **The decision is reflected in the budget draft and the medium-term budget framework.**¹¹⁵

The **transparency** of the spending review process is **achieved and maintained through the publication of the results of the spending review**. The Spending Review Reports are available on the Ministry of Finance's website, allowing the public to access and scrutinise the findings.¹¹⁶

The Ministry of Finance guarantees the **publication** and **implementation** of the spending review outcomes, by posting the report on its website and tracking the performance and effect of the actions to reduce costs on the public funds and the people. The State Audit Office and the European Commission also conduct external audits and assessments of the publication and implementation of the spending review outcomes.¹¹⁷

Technology

The spending review process in Latvia does not use any specific software or database to conduct its spending review. But since 2016, comprehensive review of an Interactive Budget Infographic was created, which allows users to familiarise themselves with nine areas of the budget (e.g. health, education and social security) and the funding allocated

¹¹⁴ Ministry of Finance. (2022). Spending review process in Latvia. <https://www.fm.gov.lv/en/media/11038/download>

¹¹⁵ Ketners, K., (2020). Spending Review as Essential Part of Public Sector Budgeting: Latvian Experience. https://ilufb.llu.lv/conference/economic_science_rural/2020/Latvia_ESRD_53_2020-97-106.pdf

¹¹⁶ Ministry of Finance. (2020). Spending Review. <https://www.fm.gov.lv/en/spending-review>

¹¹⁷ Ketners, K., (2020). Spending Review as Essential Part of Public Sector Budgeting: Latvian Experience. https://ilufb.llu.lv/conference/economic_science_rural/2020/Latvia_ESRD_53_2020-97-106.pdf

to each area. It also provides detailed information on investment directions in each sector and funding source.¹¹⁸

5.3. **Policy Evaluation Framework and Linkage to Spending Reviews**

Legal Context

Latvia currently does not have legislation that would establish a clear link between spending reviews and evaluations of development plans. Within the existing framework, **evaluations of structural funds, development plans, and spending reviews are regarded as separate processes.**

The **Development Planning System Law**¹¹⁹ in Latvia, which serves as a framework for planning, hierarchy, organisation and management for the development plans stipulates that the **National Development Council** is established for the purpose of planning and evaluating the long-term development of the State. The Minister of Finance is part of the National Development Council. MoF holds no other formal role.

Section 12. Organisation, Coordination and Management of the Development Planning System

(1) The Prime Minister shall ensure the drawing up of the Sustainable Development Strategy of Latvia and the National Development Plan, the supervision and coordination of their implementation and also the supervision and coordination of the implementation of other national level planning documents. The National Development Council, which shall be chaired by the Prime Minister, shall be established for the purpose of planning and evaluation of the long-term development of the State. (...)

The law, entered into force in 2009, was last amended in 2023¹²⁰ as functions previously carried out by the Cross-Sectoral Coordination Centre were added to the State Chancellery and The Cross-Sectoral Coordination Centre ceased to exist as of 1 March 2023.¹²¹

Additionally, the Chancellery, through its Legal Department, focuses on compliance of each regulatory draft with the rules for drafting legislation, including the obligation to conduct impact assessment or requirements for stakeholder engagement. The assessment of the Ministry of Justice and the State Chancellery is binding for other ministries, which may be requested to revise their proposals accordingly. The Chancellery also coordinates the development and application of uniform rules of regulatory drafting including the impact assessment guidelines. In 2018, its mandate was expanded to include, among other functions, quality control of ex post evaluations and systematic evaluation of regulatory policy.¹²²

While there is no explicit programme on ex post evaluations, they are now required for some subordinate regulations and an evaluation of all policy documents conforming to the SDGs was recently conducted. The Chancellery also coordinates the development

¹¹⁸ Ketners, K., (2020). Spending Review as Essential Part of Public Sector Budgeting: Latvian Experience – Poster. https://conferences.lbtu.lv/sites/lucsf/files/conferences/escrud_2020/menu_attachments/Poster_ESRD_tax_0.pdf

¹¹⁹ Development Planning System Law. (2008). <https://likumi.lv/doc.php?id=175748>

¹²⁰ Likumi LV (n.d), Legal Acts of The Republic of Latvia <https://likumi.lv/ta/id/339965-grozijumi-attistibas-planosanas-sistemas-likuma>

¹²¹ State Chancellery (2023), State Chancellery is strengthened as government centre by adding functions of the Cross-Sectoral Coordination Centre <https://www.mk.gov.lv/en/article/state-chancellery-strengthened-government-centre-adding-functions-cross-sectoral-coordination-centre>

¹²² OECD (2021) „Indicators of Regulatory Policy and Governance 2021“ <https://www.oecd.org/gov/regulatory-policy/latvia-country-profile-regulatory-policy-2021.pdf>

and application of uniform rules of regulatory drafting including the impact assessment guidelines. In 2018, its mandate was expanded to include, among other functions, quality control of ex post evaluations and systematic evaluation of regulatory policy.¹²³ Evaluations of existing regulations are made publicly available.¹²⁴

Organisational Structure and Operational Context

National development planning documents are prepared for a long-term (up to 25 years), medium-term (up to seven years) and short-term (up to three years).¹²⁵ **The National Development Council** is responsible for planning and evaluating the long-term development of the State. It is a collegial institution chaired by the Prime Minister and is composed of ministers and other representatives of various sectors and institutions in Latvia, for example the Free Trade Union Confederation of Latvia.

The State Chancellery shall prepare an assessment regarding the conformity of the financing granted for priority measures in previous years and the financing granted from other sources with the National Development Plan and submit it to the Prime Minister and the Ministry of Finance.¹²⁶

The European Union (EU) funds Managing Authority in Latvia is the Ministry of Finance, which is in charge for effective and transparent implementation of EU funds according to principles of sound financial management. The Managing Authority, in cooperation with responsible institutions and consulting with social, NGO and regional partners, develops EU funds programming documents. The Managing Authority also performs functions of EU funds management, evaluation, communication management etc.

5.4. Case Study

In 2020, the Ministry of Finance in Latvia conducted its fifth annual Spending Review. This review involved the assessment of various functions funded by the state budget, financing policies overseen by line ministries, and the outcomes of medium-term expenditure evaluations. The review aimed to inform the development of future budget frameworks and annual state budget laws.

The 2020 Spending Review¹²⁷ utilised a specialised approach by arranging the analysis and structuring the organisation around three main blocks:

1. **Fundamental analysis of functions financed by the state budget.** In cooperation with sectoral ministries, sectoral budgets were analysed by dividing state budget

¹²³ OECD. (2021). Indicators of Regulatory Policy and Governance 2021. <https://www.oecd.org/gov/regulatory-policy/latvia-country-profile-regulatory-policy-2021.pdf>

¹²⁴ OECD. (2021). Indicators of Regulatory Policy and Governance 2021. <https://oecd.org/gov/regulatory-policy/latvia-country-profile-regulatory-policy-2021.pdf>

¹²⁵ State Chancellery. (2023). National Development Planning. <https://www.mk.gov.lv/en/national-development-planning>

¹²⁶ Materials shared by MoF during the Knowledge Sharing Sessions.

¹²⁷ Ministry of Finance. (2020). Informative report "On the results of the state budget Spending Review and proposals for the use of these results in the process of developing the draft law "On the medium-term budget framework for 2021, 2022 and 2023" and the draft law "On the state budget for 2021". <https://www.fm.gov.lv/lv/media/1617/download?attachment>

programmes/sub-programmes by functions/activities, assessing their relevance and effectiveness, as well as the funding allocated to functions/activities.

2. **Analysis of financing policies under the supervision of line ministries** to ensure a more economical and rational implementation of state functions and, if necessary, to provide proposals for policy changes. The areas under the supervision of the Ministry of Education and Science and the health sector were evaluated in depth. Within health sector, a thorough analysis of state-funded healthcare services and expenditures within security structures was undertaken. In the areas supervised of the Ministry of Education and Science, in-depth evaluation was conducted on professional education, financing for higher education, and financing for the sports industry.
3. **Results of the review of medium-term expenditure.** Considering that the results of the review of previous years' expenses show significant findings for improving the state budget financing processes, an analysis of the medium-term Spending Review was conducted. As part of it, the results of previous years and the progress of their implementation were reviewed, for example, the possibilities of centralising support functions and improving the field of ICT.

The 2020 Spending Review encompassed findings and recommendations intended to be incorporated into the draft law "On the medium-term budget framework for 2021, 2022 and 2023" and the draft law "On the state budget for 2020". Additionally, **the spending review assessed the implementation progress of recommendations from the previous spending review, including the status of assigned tasks and the identification of available resources.**

The report was 162 pages long and included detailed analyses of each focus area and presented accompanying proposals and suggestions. Additionally, three supplementary documents totalling 107 pages offered further insight into the review's analyses.

The Ministry of Finance assumed primary responsibility for developing the Spending Review. Nevertheless, the line ministries and social partners were actively engaged in the development and improvement of the spending review's scope. Through cooperative efforts, sectoral budgets underwent comprehensive analysis in tandem with relevant ministries. State budget programmes/sub-programmes underwent meticulous scrutiny, with a focus on evaluating their relevance, efficiency, and the allocation of funds to their respective functions/activities.

An Inter-institutional working group dedicated to the 2020 Spending Review participated in eight meetings, during which discussions were held to generate proposals, review evaluation outcomes, and best solutions. This **multidimensional approach ensured a holistic evaluation, facilitating robust discussions and facilitating the formulation of informed proposals.**

As a result of the 2020 Spending Review, resources for possible reallocation for 2021 were identified at €53.6 million and €38.4 million for 2022. Notably, the review provided an additional €13.1 million for government priorities and €40.5 million for internal ministry priorities in 2021. The 2020 Spending review made several recommendations:



Spending Review often falls short of planned levels in most instances. Therefore, **responsible ministries**, when making proposals for the draft law of the annual budget and forecasting the expenses and revenue related to their coverage from the state fees, **should consider the performance indicators of previous years and their dynamics.**

>	Identified overlapping functions within ministries, across different ministries, or with those of local governments necessitate the exploration of solutions and the submission of proposals for their effective implementation.
>	Considering the scarcity of specialists in the health sector and the unacquired funding, the allocated funding for specific reforms should be evaluated , such as improving mental health care. If necessary, by redistributing funding to other more accessible and vital health care services.
>	In the education sector, there are significant disparities between the data provided by the responsible ministries and the data within the State Education Information System. To mitigate this issue, the Ministry of Education and Culture needs to enhance the record and quality of the data in the State Education Information System.
>	Most individual higher education institutions primarily rely on revenue from state budget grants. Considering this, the responsible ministries must assess the expenditures of the educational institutions under their jurisdiction , particularly concerning capital formation.
>	Within the field of Public-Private Partnership, enhancing education in both the public and private sectors is imperative, with a particular focus on strengthening the expertise of the Central Finance and Contracting Agency. Additionally, it is essential to establish a clear political stance regarding the future direction of Public-Private Partnership initiatives.
>	Expenditures from the state budget on goods, services, and capital purchases in ICT have seen a notable rise, accompanied by an increase in the number of state information systems.

In general, the 2020 Spending Review can be summarised as follows:

Table 13. SMART analysis for the 2020 Spending Review

Specific	<p>The Spending Review was well-defined, encompassing three primary focus areas and specific objectives, including:</p> <ol style="list-style-type: none"> 1. Initiating a fundamental analysis of functions funded by the state budget. 2. Continuing the examination of financing policies supervised by line ministries. 3. Analysing the outcomes of the mid-term expenditure review. <p>Moreover, the spending review delineated clear review objectives, components and exceptions.</p>
Measurable	<p>The analysis of state budget expenditures during the Spending Review was structured using a matrix divided into four quadrants. This matrix ensured a standardised sample and evaluation criteria, enabling the assessment of the relevance and effectiveness of programmes within the basic functions of the state budget, as well as identifying potential function overlaps.</p> <p>Altogether 19 institutions provided matrices, covering a total of 236 programmes and identifying 489 functions and 1,283 corresponding performance indicators.</p> <p>Upon summarising the evaluation across all ministries, it was found that:</p> <ul style="list-style-type: none"> • 96.9% of functions were categorised as "Functions justify the invested resources". • 1.2% of functions fell into the "Potential for possible solutions" quadrant. • 1.0% of functions were classified under "Potential for policy change." • 0.8% of functions were placed in the "Improvement/Investment Potential" quadrant.¹²⁸
Achievable	<p>The review successfully identified potential efficiency savings and key considerations for improvements. In line with the protocol of the meeting of the MK on 18 August 2020, No. 49 § 46, Ministries were tasked with 36 assignments identified across all three main blocks.</p> <p>The implementation of the 2020 Spending Review proved largely successful, with the majority of its findings executed. Ministries completed 67% of the tasked assignments,</p>

¹²⁸ See page 29 of the Spending Review report. <https://www.fm.gov.lv/lv/media/1617/download?attachment>.

	remaining 33% underway. In 2021, €46.4 million were revised and diverted to other priorities, accounting for 86.6% of the planned amount. Similarly, in 2022, €36.8 million was redirected, reaching 95.8% of the planned amount. ¹²⁹
Relevant	The primary objective of the Spending Review was to conduct a systematic assessment of state budget expenditures. This aimed to enhance the efficiency and cost-effectiveness of implementing state policies , while also optimising budget allocation in alignment with priorities and goals outlined in development planning documents .
Time-bound	Conducted during the 2020 Spending Review Round, the Spending Review 2020 adhered to a time-bound schedule. The objective was to utilise the findings and proposals from Spending Review 2020 in the development process of both the medium-term budget framework for 2021, 2022 and 2023 and the state budget for 2021. ¹³⁰

5.5. Success Factors and Challenges



Strengths

- In Latvia, the **roles and responsibilities are clearly defined in all stages** of the spending review process. There are several institutions involved in the spending review process which therefore receives the contribution from **State Audit Office** (observation, independent assessment), **Bank of Latvia** (macroeconomic data) and **State Chancellery** (policy development and implementation).
- The spending reviews have a very **strong budgetary link** and each year the financial results of the previous spending reviews are made public by the MoF.
- Cooperation with sectoral ministries has been established and within the framework of expenditure review it is **possible to redistribute expenditure for the implementation of current priorities**.
- According to the MoF, the spending review process has **proven to be an effective tool** from which results provide financial resources for the sector priorities not only annually but also for the medium-term.



Weaknesses

- SRs are **Regulated by the Law on Budget and Financial Management**, spending reviews **lack official MoF guides**, but receive informal information collection guidelines, varying by topic.
- **Reallocations** between line ministries are **done but not common**.
- Spending reviews are a great **administrative burden**.
- **Poor quality performance information/data**.
- **Lack of time** to design and implement spending review.
- As per the MoF, there appears to be **limited engagement and attention at the higher political level** towards the spending review process. Currently it does not hold a position of high priority within the Government and/or Parliament.

¹²⁹ Ministry of Finance. (2021). Informative report "On the results of the state budget Spending Review and proposals for the use of these results in the process of developing the draft law "On the medium-term budget framework for 2022, 2023 and 2024" and the draft law "On the state budget for 2022".
<https://www.fm.gov.lv/lv/media/8030/download?attachment?attachment>.

¹³⁰ Order of the Cabinet of Ministers of February 26, 2020 no. 67 "On the preparation schedule of the draft law "On the medium-term budget framework for 2021, 2022 and 2023" and the draft law "On the state budget for 2021".
<https://likumi.lv/ta/id/312872>.



Opportunities

- **Integrating municipalities** and engaging **local governments** in spending reviews.
- Adopting a **medium-term perspective** for planning and implementation.
- **Revising policy documents and policies**, establishing next steps and indicators.
- **Coordinating** spending reviews with EU fund revisions.



Threats





- Comprehensive reviews covering 80% of the budget **may lack the level of detail** and focus on specific inefficiencies, hence the **recommendations might remain generic**.

6. The Netherlands

6.1. Overview of Spending Reviews

The Netherlands has carried out spending reviews since the early 1980s. In total, more than 300 spending reviews have been conducted over the last 40 years with the **focus shifting away from creating fiscal space to generating policy options**. Spending reviews in the Netherlands entail the following key elements regarding the process, regulation, organisation and integration with other instruments:

Table 14. Overview of spending review process in the Netherlands

 Process	 Regulation
<ul style="list-style-type: none"> • The objective has shifted away from generating savings to forming new policy options + estimating their consequences. • Mandatory cost-saving targets of 10 to 20% are now optional. • Targeted and comprehensive spending reviews. 	<ul style="list-style-type: none"> • There is no specific legislation on SRs in the Netherlands. It is based on convention. • The Accounting Act 2016 and the Periodic Evaluation Survey Regulations 2022 indirectly guide the SR process.
 Organisation	 Integration with instruments
<ul style="list-style-type: none"> • SRs are conducted by the MoF in collaboration with the relevant line ministries. Steering Committee provides strategic guidance while working groups carry out the analysis supported by a Secretariat. • The Cabinet decides on the scope, objectives and timeline. • External consultants participate in the workings groups, providing relevant knowledge. 	<ul style="list-style-type: none"> • Evaluations are a source of input for spending reviews. Instruments are in a common complementary framework. • Limited integration with state budget process.

While the earlier review rounds aimed to achieve large consolidation and saving measures the approach since 1995 has been to **mostly conduct selective spending reviews and occasional comprehensive spending review rounds** (e.g. 2008 financial crisis) covering a wider percentage of state expenditure when necessary as illustrated by Figure 7.

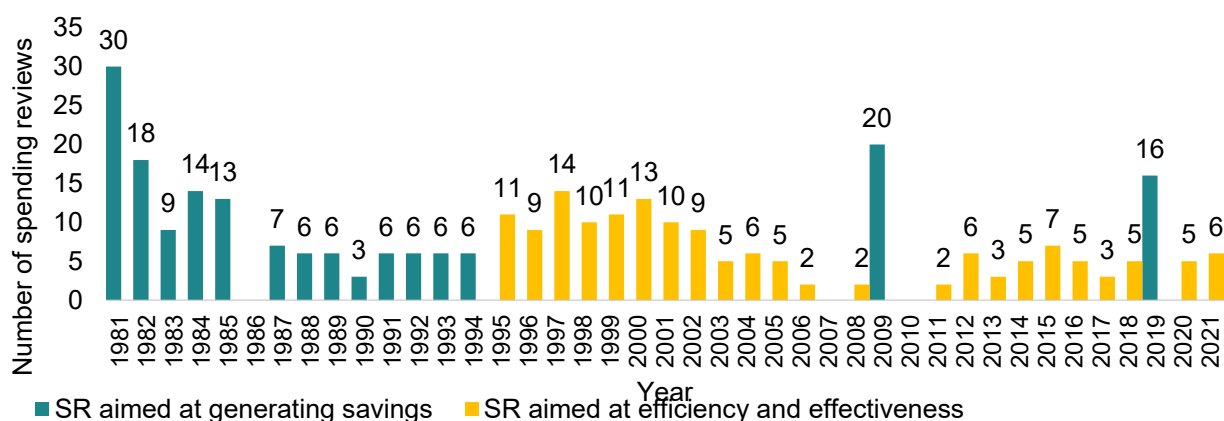


Figure 7. Number of spending reviews conducted in the Netherlands (according to year of initiation).¹³¹

In the early 80s, the Dutch state budget was in a substantial deficit, which created the necessity of strategic and systematic approach for reviews. Early spending reviews in the Netherlands (called the *herwaardering* or **re-valuing** procedures) were highly informal, had no timeline and were the responsibility of civil servants in the respective review areas. This proved to be not effective since civil servants started to use tactics to prevent, limit and postpone evaluation results.

With the lessons learnt in the early stage, a new type of evaluation process called *heroverweging* or **reconsideration** was developed which proved to be more successful. Under the new approach, the spending review topics were proposed by the MoF and decided by the Government. With the new approach, each review had to produce at least one alternative proposal which would lead to at least a 20% reduction in budgeted expenditure within four years.

In 1995, the Netherlands adopted the current spending review process called the **Interdepartmental Policy Review** which shifted the focus on improving efficiency and effectiveness of policies. The **previously mandatory savings target was changed to be optional meaning** that current baseline expenditures remain untouched unless stated otherwise in the spending review assignment.

Exceptions are 2009 and 2019 in which spending reviews aimed to generate savings. The 2009 spending review covered about 80% of central government budget expenditure and had a focus on generating fiscal space in the aftermath of the global financial crisis. More specifically, in 2010 it was reported that the comprehensive spending review in 2009 generated potential savings in total of €40.7 billion, of which the health care cutback proposals totalled to €10.8 billion.¹³²

Ten years later, a new comprehensive spending review was conducted at the request of the Dutch Parliament. The 2019-2020 comprehensive spending review had a focus on **developing options to prepare for the next economic downturn**. The budgetary

¹³¹ de Jong, M. (2022). Spending Review Practices in the Netherlands. PEMPAL BCOP. pp. 7-9. <https://www.pempal.org/knowledge-product/spending-review-practices-netherlands>

¹³² van Uum, W. (2016). Spending reviews and health care in the Netherlands. Ministry of Health, Welfare and Sport. <https://www.slideshare.net/OECD-GOV/spending-reviews-and-health-care-in-the-netherlands>

impact of the spending review is unknown yet due to the use of potential saving measures have been impacted by the COVID-19 pandemic.¹³³ No minimum savings were required.

In recent years, from 2018 to 2023, the spending reviews in the Netherlands have covered a variety of topics from air quality to wealth distribution. The type of topics chosen include a major societal challenge, a financial challenge, and/or ineffectiveness or inefficiency of a current policy. The number of spending reviews that the Netherlands has conducted has stabilised over the years to **three to seven spending reviews per year**.

6.2. Spending Review Framework

Legal Context

The legal basis of spending reviews in the Netherlands is not explicitly established through specific legislation. Rather, spending reviews operate more as a convention or administrative process on a set of principles. Laws which indirectly guide spending reviews include the Netherlands are the Accounting Act 2016 (*Comptabiliteitswet 2016*) and the Periodic Evaluation Survey Regulations 2022 (*Regeling periodiek evaluatieonderzoek 2022*).^{134 135}

The Accounting Act regulates the budgetary process and the financial management of the central government. It stipulates that the government must present a multiannual budgetary framework, which sets the expenditure ceilings and the fiscal targets for the upcoming years. The spending reviews are one of the instruments that the government uses to comply with the law and to achieve its fiscal objectives.

The Accounting Act also provides the legal basis for the **Budget Memorandum** (*Miljoenennota*) which is the main policy document that the government submits to the Parliament on Budget Day (the third Tuesday of September).¹³⁶ The *Miljoenennota* outlines the government's budgetary policy, the economic outlook, the expenditure and review lands, and the fiscal and financial risks. The spending reviews are used for an input for the preparation of the Budget Memorandum, which itself is regulated by the Account Act 2016.

The Periodic Evaluation Survey Regulations on the other hand is a regulation issued by the Ministry of Finance of the Netherlands, which sets the rules for periodic evaluation research on the effectiveness and efficiency of public policies and programmes. The regulation aims to improve the quality and transparency of policy evaluation and to support evidence-based decision making and accountability.

¹³³ de Jong, M. (2022). Spending Review Practices in the Netherlands. PEMPAL BCOP. <https://www.pempal.org/knowledge-product/spending-review-practices-netherlands>

¹³⁴ Accounting Act 2016. (2023). <https://wetten.overheid.nl/BWBR0039429/2023-09-26>

¹³⁵ Periodic Evaluation Survey Regulations 2022. (2022). <https://wetten.overheid.nl/BWBR0046970/2022-07-27>

¹²⁵ Government of the Netherlands. (n.d.). Budget process. <https://www.government.nl/topics/budget-day/budget-process>

Organisational Structure

Spending review process

The SR procedure in the Netherlands does not rely on a high degree of legal formalisation or detailed process descriptions. Instead, the MoF uses its broad legal mandate to safeguard relevance, efficiency and effectiveness in a flexible way to strategically manage the SR process.¹³⁷ The scheme below shows roles of each spending review process actor step-by-step, from the beginning of the process until the publication of the reviews.

Table 15. Spending review process in the Netherlands

1	The Government chooses the topics that the spending review will cover.
2	The Ministry of Finance proposes the goals, scope, methods and time of the spending reviews.
3	The spending review working groups are formed by the Ministry of Finance and the line ministries, with external experts.
4	The spending review working groups analyse and evaluate the current spending and policies and propose options for savings or improvements.
5	The spending review working groups present their proposals to the political leadership, the Ministry of Finance, and the line ministries for approval and decision.
6	The political leadership approves the proposals and decides on the implementation and follow-up of the spending review recommendations.
7	The line ministries and the government agencies implement the recommendations and report on their progress and results.
8	The Ministry of Finance monitors and reports on the implementation and follow-up of the recommendations and publishes and disseminates the results and recommendations to the public and the parliament.

Roles and responsibilities

Spending reviews in the Netherlands are **conducted** by the **Ministry of Finance** in collaboration with the relevant line ministries and are **linked to the budget process and the medium-term expenditure framework**. Spending reviews are initiated by the Government, usually as part of a coalition agreement or a fiscal consolidation plan and cover specific policy areas or expenditure categories. The **Government decides** on the

¹³⁷PEMPAL (2022) "Spending review practices in the Netherlands"
https://pure.eur.nl/ws/portalfiles/portal/76403915/pempal_bcop_netherlands_final_dec22.pdf

scope, objectives and timeline of each spending review, as well as the allocation of responsibilities among the ministries involved.¹³⁸

Table 16. Stakeholders and their role regarding spending reviews in the Netherlands

Stakeholder	Role
The Government	Initiates and approves the spending reviews
Ministry of Finance	Coordinates the spending review process, chairing and participating in the steering committee
Line ministries	Provide data, participate in the steering committee and the working groups, implement saving measures
External consultants	Participate in the working groups, provide relevant knowledge to process

The Ministry of Finance plays a leading role in the spending review process, as it provides guidance, coordination and quality assurance. The MoF also chairs the steering committee, which is composed of senior officials from the MoF and the line ministries and oversees the progress and outcomes of the spending reviews. The interdepartmental steering committee is supported by a secretariat, which is located within the MoF and consists of staff from the Budget Directorate and the relevant sectoral directorates. The secretariat is responsible for preparing the terms of reference, conducting the analysis, drafting the reports and facilitating consultations.¹³⁹

The **line ministries** are responsible for providing data, information and expertise to the spending review team, as well as for implementing the agreed saving measures. The line ministries also participate in the steering committee and the working group, which are established for each spending review and consist of technical experts from the MoF and other line ministries.¹⁴⁰

Governance model

For each spending review, a steering committee and a working group are established. The **steering committee** consists of senior officials from the MoF, the ministry responsible for the topic and other relevant ministries. The steering committee provides strategic guidance, approves the scope and objectives, and endorses the results of the spending review. The MoF coordinates the process and chairs the meetings of both groups.

The **working groups** are composed of independent, non-political experts, such as civil servants and external consultants, who have relevant knowledge and skills in the policy area under review. Additionally, the working groups are chaired by senior officials who are not responsible for the policy at hand, and who can facilitate the discussion and ensure impartiality.¹⁴¹ These groups are responsible for conducting a detailed analysis,

¹³⁸ de Jong, M., Shcherbyna, I. and Allen, R. (2023). Spending Reviews: Lessons from the Netherlands. International Monetary Fund. <https://blog-pfm.imf.org/en/pfmblog/2023/03/spending-reviews-lessons-from-the-netherlands>

¹³⁹ de Jong, M., Shcherbyna, I. and Allen, R. (2023). Spending Reviews: Lessons from the Netherlands. PEMPAL CORP. https://www.pempal.org/sites/pempal/files/pempal_spending_review_one_pager_final.pdf

¹⁴⁰ PEMPAL (2022) "Spending review practices in the Netherlands" https://pure.eur.nl/ws/portalfiles/portal/76403915/pempal_bcop_netherlands_final_dec22.pdf

¹⁴¹ Kabel, D. (2015). Spending Reviews in the Netherlands. Ministry of Finance. https://www.mfsr.sk/files/archiv/uhp/20537/52/Spending-Review-Netherlands_D-Kabel.pdf

identifying the options and assessing the impacts of the spending review. **The working groups have a no-veto principle to ensure that all issues can be discussed.**¹⁴² The governance structure adopted in the early 1980s has remained largely intact and is presented in Figure 8.

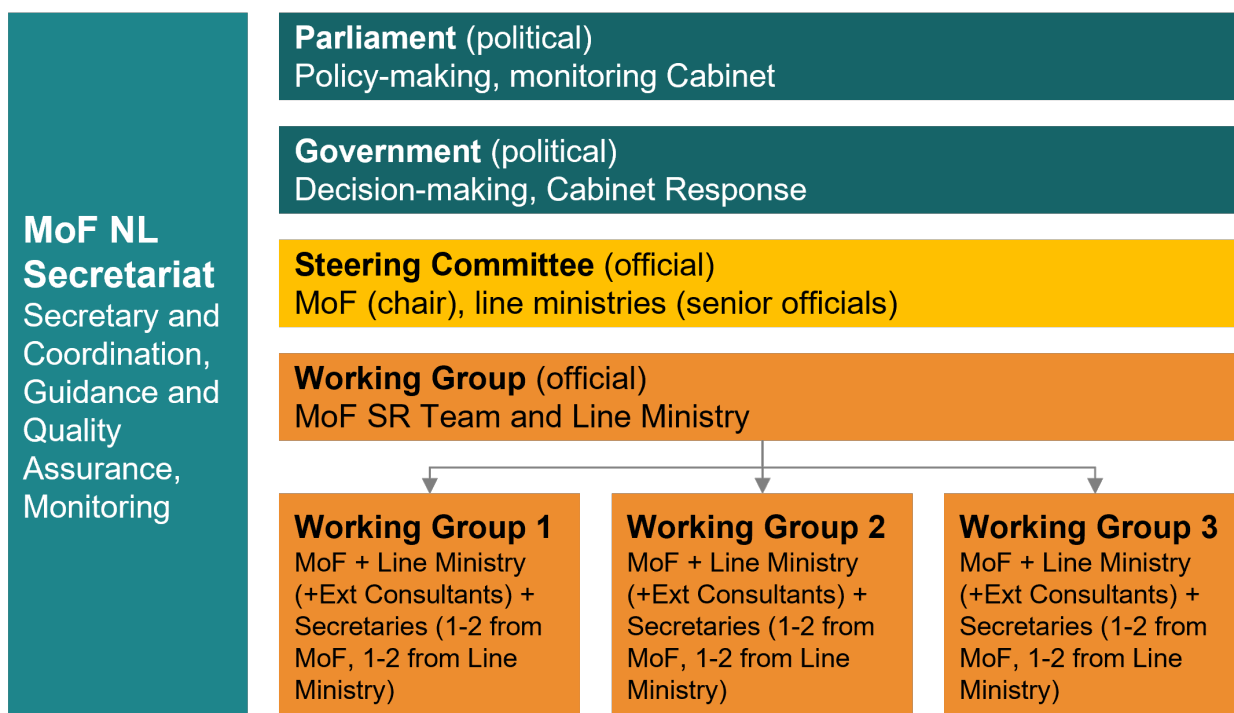


Figure 8. Governance model for spending reviews in the Netherlands.

SRs formally follow an assignment (Terms of Reference) from the Cabinet (the highest executive body in the Dutch government) and are executed by an inter-ministerial working group. The MoF is strategically involved in the process and its outcomes. Its role is reinforced by the fact that the Ministry of Finance is represented in the secretariat and the working group of each SR and chairs the steering committee overseeing the process. Line ministries have a clear interest in contributing to the quality of the SR process¹⁴³, which can be explained by the strong political involvement and efficient collaboration with the MoF during topic selection phase. **Working groups** are non-political and usually consist of civil servants at the level of director. As a rule, **the MoF and the Prime Minister’s Office are represented on the working group** in addition to the most relevant line ministries. Once the actual SR process starts, the working group meets every four-eight weeks.¹⁴⁴

The SR working group is supported by a **secretariat** in which the **MoF** and the most-involved ministries are represented. The secretariat reports to the independent chair of

¹⁴² Doherty, L. and Sayegh, A. (2022). How to Design and Institutionalize Spending Reviews. International Monetary Fund. <https://www.imf.org/-/media/Files/Publications/HowToNotes/2022/English/HTNEA2022004.ashx>

¹⁴³ Government of the Netherlands. (n.d.). Budget process. <https://www.government.nl/topics/budget-day/budget-process>

¹⁴⁴ de Jong, M. (2022). Spending Review Practices in the Netherlands. PEMPAL BCOP. <https://www.pempal.org/knowledge-product/spending-review-practices-netherlands>

the SR working group and executes most of the analytical work and the drafting of the reports.¹⁴⁵

Operational and Technological Setup



The spending review process in the Netherlands is split into four phases: preparation, analysis, decision and implementation.

The **preparation** phase of the spending review process involves selecting the topics for review, setting the objectives and scope, and forming the steering committee and working group. The **analysis** phase involves conducting the spending review, identifying saving measures and assessing the impacts of the review. The **decision** phase involves presenting the results to the Government, negotiating trade-offs between line ministries and approving the final measures. The **implementation** phase involves publishing the results, incorporating them into the budget and monitoring the progress.¹⁴⁶

Budgeting process

The simplified scheme below shows when and where do spending reviews fit in to the budgeting process, and what happens in each step of the way.

Table 17. Timeline of spending review and budgeting process integration in the Netherlands¹⁴⁷

January	Topic selection for spending review
▼	
April	Budget negotiations
▼	
September	Budget memorandum, the start of the spending review
▼	
March T+1	Spending review finished, cabinet takes a position, outcome ideally part of budget negotiations T+1

An SR usually must be finalised within six to eight months ensuring timely incorporation with the budgeting process, although not formally linked with the budgetary framework. The spending review process in the Netherlands follows general principles, a broad framework and legislative rules rather than a detailed work plan.¹⁴⁸

¹⁴⁵ de Jong, M. (2022). Spending Review Practices in the Netherlands. PEMPAL BCOP. <https://www.pempal.org/knowledge-product/spending-review-practices-netherlands>

¹⁴⁶ de Jong, M. (2022). Spending Review Practices in the Netherlands. PEMPAL BCOP. <https://www.pempal.org/knowledge-product/spending-review-practices-netherlands>

¹⁴⁷ <https://www.slideshare.net/OECD-GOV/spending-reviews-nynke-de-witte-netherlands>

¹⁴⁸ de Jong, M., Shcherbyna, I. and Allen, R. (2023). Spending Reviews: Lessons from the Netherlands. International Monetary Fund. <https://blog-pfm.imf.org/en/pfmblog/2023/03/spending-reviews-lessons-from-the-netherlands>

Topic selection

The topics are **proposed by the Ministry of Finance** based on the dialogue between them and the line ministries. The outcome of budget negotiations with line ministries often influences the list of proposed topics by the Ministry of Finance. The topics for spending reviews are **approved by the Government**. As there are no rigid requirements for the selection of topics, they are usually broad and cover a range of policies and programmes within a policy area, a ministry or are even interministerial. The selected topics also usually have a budgetary significance. When the topics are selected, and review's terms of reference is ready. ¹⁴⁶

Analysis

The analysis phase of the spending review is **based on a standardised framework that consists of four steps: problem analysis, policy analysis, measure analysis and impact analysis**. The problem analysis identifies the main challenges and objectives of the policy area under review. The policy analysis is the stage where the line ministries conduct a systematic and evidence-based assessment of their current policies and programmes in terms of effectiveness, efficiency and coherence. The option analysis generates alternative options for achieving the objectives based on best practices, benchmarks and innovations. The impact analysis estimates the budgetary, economic, social and environmental effects of each option using quantitative and qualitative methods. ¹⁴⁶

Results, Decision, Publication

All evaluation studies and evaluations which include spending reviews are published in a database ¹⁴⁹ administered by the Ministry of Finance. Results of the spending review are presented in a report that summarises the main findings and recommendations. The report includes a brief and clear overview of the key findings, a detailed description of the analysis, and an annex with supporting data and evidence. The report also provides a ranking of the options based on their impacts and feasibility and suggests a preferred package of measures. The report is submitted to the steering committee for endorsement, and then to the Government for decision.

The Minister of Finance and the responsible line minister(s) are the first to receive the **SR report**. Within two-three months, their strategic staff unit will draft the Cabinet's View that states a political assessment of the policy options that are presented in the report. This view is discussed in a Cabinet meeting, adjusted if needed and sent to Parliament with the SR report. The Cabinet's View is explained in a letter by the responsible minister to the Parliament. Typically, the Cabinet does not adopt one of the options right away but reflects on them and on the analysis in the report. Sometimes the Cabinet's View also states preferences in favour of or against certain options. The Cabinet's View can lead the line minister to announce a change in priorities or announce further investigation into implementing specific measures. Seldom results in immediate budgetary consequences.

The **decisions** on the findings and measures identified in the spending review involve a political negotiation among the Cabinet members, based on the results of the analysis and the preferences of the ministries. The negotiation within the Government aims to reach a consensus on the final package of measures that will be adopted and implemented. The negotiation may result in adjustments or trade-offs among the measures, depending on the political priorities and constraints. The decision is recorded

¹⁴⁹ Ministry of Finance. (n.d). Rijksfinanciën. <https://www.rijksfinancien.nl/beleidsevaluatie/onderzoek>

in a Cabinet memorandum that outlines the agreed measures and their budgetary implications.¹⁵⁰

When the Government has finished its decision-making process, the publication of the spending review starts. It involves **communicating the results and the decision to the public and the Parliament**. Spending reviews in the Netherlands are published on a page administrated by the Ministry of Finance¹⁵¹. The spending reviews are only available in Dutch. **The MoF also organises a press conference and a public seminar to explain the rationale and the benefits of the spending review**. The Parliament is informed of the decision made by the Cabinet and the measures through a letter from the Minister of Finance and may request a hearing or a debate on the spending review.¹⁵⁰

Implementation

After the previous phases are complete, the implementation phase of the spending review begins. It involves incorporating the identified measures into the budget and ensuring their execution and monitoring the progress. **The measures are reflected in the budget proposal, as well as in the medium-term expenditure framework and the performance indicators**. The line ministries are responsible for their topic's implementation and are reporting on the progress and the outcomes of it. **The MoF oversees the whole implementation and evaluates the impact of the spending review**.¹⁵⁰ It is noteworthy that the implementation of options from the SR reports in the budget process is far from linear and straightforward. It should also be emphasised that the MoF not only derives options for savings and spending prioritisation from SRs but also from other sources. For the abovementioned reasons the exact budgetary impact of the adoption of SR policy alternatives is hard to estimate precisely.¹⁵²

6.3. Policy Evaluation Framework and Linkage to Spending Reviews

Legal Context

Ministries are obliged to periodically evaluate policy as laid down by the Accounts Act¹⁵³. **The detailed guidelines for policy evaluation are contained in the Periodic Evaluation Research Regulations 2022 (RPE)**¹⁵⁴. In addition to the RPE, the evaluation of subsidies is also mandatory under the General Administrative Law Act¹⁵⁵. Guidelines for the evaluation of agencies and autonomous administrative bodies are included in the Agencies Regulation¹⁵⁶ and the Framework Act on Independent Administrative Bodies¹⁵⁷.

¹⁵⁰ de Jong, M. (2022). Spending Review Practices in the Netherlands. PEMPAL BCOP. <https://www.pempal.org/knowledge-product/spending-review-practices-netherlands>

¹⁵¹ Ministry of Finance <https://www.rijksfinancien.nl/brede-maatschappelijke-heroverwegingen>

¹⁵² PEMPAL (2022) "Spending Review Practices in the Netherlands."

https://pure.eur.nl/ws/portalfiles/portal/76403915/pempal_bcop_netherlands_final_dec22.pdf

¹⁵³ Accounts Act. <https://wetten.overheid.nl/BWBR0039429/2023-01-01>

¹⁵⁴ Periodic Evaluation Research Regulations. <https://wetten.overheid.nl/BWBR0046970/2022-07-27/0>

¹⁵⁵ General Administrative Law Act. <https://wetten.overheid.nl/BWBR0005537/2023-01-01>

¹⁵⁶ Agency Regulation. <https://wetten.overheid.nl/BWBR0040286/2018-01-01>

¹⁵⁷ Framework Act on Independent Administrative Bodies. <https://wetten.overheid.nl/BWBR0040286/2018-01-01>

Organisational Structure and Operational Setup

The set of instruments, laws and rules for evaluation together form the government-wide evaluation system. The Netherlands has extensive legislation in place to regulate the evaluation framework and the numerous instruments available to evaluate policy which together form the government-wide evaluation system. **The evaluation system consists of five key steps¹⁵⁸: agenda, preparation, legislation, performance and feedback** all of which encompass different instruments deployed (illustrated by Table 18).

Table 18. Dutch Evaluation System.¹⁵⁹

New Policy	Existing Policy – Content	Existing Policy – Budget
All new policies need to be approved by the MoF	All existing policies must be constantly evaluated on their effectiveness	All changes in the budget need an approval from the IRB
Policy Compass, SCBA, Policy Choices Explained <ul style="list-style-type: none"> Which objectives will be pursued, what instruments are used and what is the financial consequence. How policy will be monitored and evaluated over time. 	Policy Review <ul style="list-style-type: none"> All policy themes should be evaluated every 3-7 years. 	IT System (IBOS)
Comprehensive SR <ul style="list-style-type: none"> Developing policy options. 	Strategic Evaluation Agenda <ul style="list-style-type: none"> Consists of a prioritisation and planning of all relevant research per department. 	Zero Base <ul style="list-style-type: none"> A detailed examination for specific articles to determine the accuracy of the financial calculations. Uses setting codes for wage and price sensitivity.
Spending Plans <ul style="list-style-type: none"> Reservation of funds for measures that have been decided but are awaiting further elaboration. 	Retrenchment and Investment List <ul style="list-style-type: none"> The retrenchment list consists of measures that could be taken to improve governmental finances. The investment list consists of measures that could increase government spending and reduce the burdens. 	Under-spending monitoring <ul style="list-style-type: none"> Insights in the items that are structurally underspending the budget.

Ministries conduct hundreds of studies every year to evaluate policy to determine whether the policy works and how it can be improved. Since 2021, ministries work with a Strategic

¹⁵⁸ Ministry of Finance. (2023). Evaluation system.
<https://www.rijksfinancien.nl/beleidsevaluatie/evaluatiestelsel#agendering>

¹⁵⁹ Kabel, D. (2015). Spending Reviews in the Netherlands. Ministry of Finance.
https://www.mfsr.sk/files/archiv/uhp/20537/52/Spending-Review-Netherlands_D-Kabel.pdf

Evaluation Agenda which contains all ex-ante, ex-durante¹⁶⁰, ex-post studies, agency audits and audits of independent administrative bodies. The Strategic Evaluation Agenda must promote that relevant and useful insights into the effectiveness and efficiency of policy (and the conditions for this) become available in a timely manner so that they can be used. The Strategic Evaluation Agenda provides an overview of the important policy themes of a ministry, a brief explanation of the insight needs per theme and an appropriate agenda for monitoring, evaluation and other policy-relevant research. The MoF is in charge of ensuring quality rules for policy evaluation.¹⁶¹ Spending departments are responsible for their own budgets and evaluate policy instruments and inform the Court of Audit about evaluations.¹⁶²

The Policy Compass is the central working method for preparing policies and legislation. As part of the Policy Compass in accordance with Article 3.1 of the Government Accounts Act all proposals that go to the House of Representatives must contain an explanation of: the objectives pursued, policy instruments deployed, financial consequences, effectiveness, efficiency and intended evaluation. As part of policy preparation, a Social Cost-Benefit Analysis (SCBA) is usually applied prior to decision-making on policy or projects. The SCBA helps to compare different alternatives for a project in an integrated manner, taking into account all social effects, not just financial considerations.

Periodic reports (policy reviews)

Periodic reports are part of the Strategic Evaluation Agenda. Almost all research reports are public. The Netherlands has a database which brings together all completed spending reviews and evaluations.

6.4. Case Study

The spending review case study “**Ready for Climate Change**”¹⁶³ was conducted in **2020**. In the report, the working group presents a spectrum of policy options to prepare the Netherlands for the consequences of climate change. Climate adaptation is not a policy area in itself. Rather, it is a task that cuts across many other policy areas.

As for the context, the government expenditure concerns expenditure in the budget of the Ministry of Infrastructure and Water Management (the Delta Fund) and the budget of Agriculture, Nature and Fisheries. The majority of government expenditure in the base (more than 97%) concerns expenditure for the sub-programmes of the Delta Programme (Water Safety, Freshwater and Spatial Adaptation). In the Delta Programme, the government works with other governments to protect the Netherlands against flooding, ensure sufficient freshwater and make the living environment water-robust and climate-proof.

Because climate adaptation is a task that cuts across other policy areas, the working group identified seven policy areas in which adaptation to climate change plays or will play a role. The working group investigated to what extent current policy is or is not

¹⁶⁰ Ex durante evaluation takes place during the implementation process and uncovers the changes that have occurred during the lead time of the implementation of policies or projects.

¹⁶¹ Kraan, D. J. (2014). Spending review in the Netherlands. International Monetary Fund. https://www.pempal.org/sites/pempal/files/event/attachments/8_dirk-kraan-antalya_eng-2-.pdf

¹⁶² Rob Van Gestel, Marie-Claire Menting (2011) “Ex Ante Evaluation and Alternatives to Legislation: Going Dutch?”, [Ex Ante Evaluation and Alternatives to Legislation: Going Dutch? | Statute Law Review | Oxford Academic \(oup.com\)](https://www.oup.com/academic/product/ex-ante-evaluation-and-alternatives-to-legislation-going-dutch?from_view=product&from_cid=author)

¹⁶³ <https://www.rijksfinancien.nl/bmh/bmh-8-klaar-voor-klimaatverandering.pdf>

sufficient to make the Netherlands water-robust and climate-proof. The spending review was conducted with input from literature research, policy evaluations, interviews with experts, knowledge institutions and local authorities.

The working group presents **three policy options** with which choices can be made for next steps in climate adaptation policy. Implementation of these scenarios will respectively lead to:

>	(i) Government expenditure remaining the same.
>	(ii) A reduction in government expenditure (-20%).
>	(iii) An intensification of government expenditure (+20%).

Scenario (iii) being further elaborated into three sub-options:

>	(a) First variant proposes measures that enable stronger management through regulations and pricing with a small burden on the national budget.
>	(b) In the second variant, the Netherlands maintains the level of the established water safety standards, but the growth path to these standards is slowed down from 2050 to 2060.
>	(c) Additional focus on either rural area, infrastructure or the built environment.

Each scenario presents broad programme-level measures to improve climate policies with an impact analysis. For example, measures proposed in variant b) leading to a reduction in government expenditure are:

- Shift the date for achieving water safety standards from 2050 to 2060.
- Lower ambition for space Delta Spatial Adaptation Programme.
- Lower ambition for the Freshwater Delta Programme.

In general, the 2020 Spending Review can be summarised as follows:

Table 19. SMART analysis for the Spending Review 2020

Specific	The 2020 Spending Review included a broad scope and objectives to be achieved as well as concrete savings target policy options . The Review's objectives were to analyse the climate policy in the changing environment context.
Measurable	The 2020 Spending Review incorporated quantifiable metrics to assess the progress and impact of policies. The Review included a cost-efficiency and governance analysis component to determine spending alternatives. For example, the Spending Review contained an analysis and options to strengthen environment policy.
Achievable	Key opportunities for improving climate policy with changes in expenditure were identified . Specific measures were presented and adopted by the government leading to planned implementation.
Relevant	The 2020 Spending Review's goal was to provide wide range of measures to improve climate policy to provide the new government with options to choose from based on their priorities .
Time-bound	Conducted from 2019 to 2020 and published in 2020, the Spending Review 2020 adhered to a time-bound schedule and timely adoption in the Budget Memorandum.

6.5. Success Factors and Challenges



Strengths

- To enhance the credibility and independence of SR reports a **clear separation exists between drafting the SR report, the political appraisal of the report which is a separate document and communication to the Parliament**. The Minister of Finance and the relevant line ministers first receive the SR report. Their strategic staff drafts the Cabinet's View (political appraisal) which is discussed in a Cabinet meeting and adjusted if necessary before it is sent to the Parliament.
- The spending review **reports have an objective, analytical and non-political status**. This ensures that urgent issues and questions are evaluated independently of “the politics of the day” allowing for additional unbiased input for policy discussions.
- **MoF oversees all policy evaluations** and has built a **strong collaborative approach** to the spending review process. Topic selection starts rather low level with initial discussion with line ministries, however before starting the review **it is made certain that everyone has a buy-in**. The analysis is conducted in a way that includes different viewpoints, multiple knowledge sources and experiences from policy practice.
- In the governance model **each working group has an independent chair** ensuring swift strategic oversight of the process.
- The Netherlands provides a good example on **consolidating spending review results into concise one-pagers** which are presented to the Parliament. Spending Reviews are published and sometimes include additional engagement with the media and the public to explain the rationale and the benefits of the spending review.
- In the Netherlands context, the spending review process aim has shifted away from creating fiscal space to creating policy options for the politicians to choose from meaning the Netherlands have successfully adapted the spending review process to meet the changing fiscal context. Even though the current focus is on creating policy options the **comprehensive consolidation focused review remains an instrument ready to be used in more dire fiscal times**. Different spending review types (comprehensive and selective) allow for flexibility in creating fiscal space. In years where thorough consolidation is a priority The Netherlands deploys a comprehensive spending review, although notably this remains an instrument most frequently used prior to elections.
- Netherlands has a **database** which brings together all **completed spending reviews and evaluations**.



Weaknesses

- **Mandatory cost-saving options (-20%) have been proven difficult to implement** and ensure that they are to be followed.
- **Comprehensive spending reviews are a big administrative burden**.
- Line ministries can pose some challenges since some ministries do not want SR-s which is a downside of having **no strong legal basis** to conduct spending reviews. **Insufficient cooperation from line ministries** has been a difficult problem to tackle over the years.
- The impact of the adoption of spending review policy alternatives is hard to estimate precisely. **Implementation of the results is not always effective, especially in case a political commitment on follow-up is not strong**.
- Several conducted spending reviews have proven to be **resource-intensive with little to no impact**, resulting in the decision to cease conducting them at the Government level.



Opportunities

- Similarly to other countries the Netherlands could make **use of more technology**, such as artificial intelligence for screening spending to detect potential review areas.



Threats





- MoF uses spending review as a tool to support the budget process, however **spending review is not part of the budget process** or budgetary policy.

7. The United Kingdom

7.1. Overview of Spending Reviews

The United Kingdom (UK) Government defines **spending reviews** as cross-government reviews of departmental aims and objectives and analysis of spending programmes that result in the allocation of multi-year budgetary limits.¹⁶⁴ The UK's spending reviews follow a rigorous process which has evolved over 25 years, producing a total of 11 spending reviews. Spending reviews in the UK entail the following features regarding the process, regulation, organisation and integration with other instruments:

Table 20. Overview of spending reviews in the United Kingdom

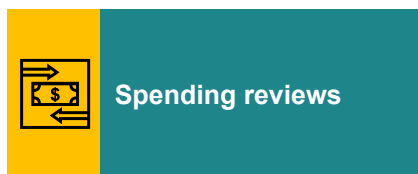
 Process	 Regulation
<ul style="list-style-type: none"> Multi-year, comprehensive SRs are conducted every 3 years to set the Government's long term budget plans. Objective of SRs: allocation of multi-year budgetary limits. Efficiency review exercises are also conducted aiming at identifying efficiency saving options and opportunities for improvement (may be conducted as part of SRs or independently). 	<ul style="list-style-type: none"> There is no specific legislation on spending reviews or efficiency reviews in the UK. SRs are incorporated into the budgeting process through a process called the Supply Estimates process, which is regulated by the Supply and Appropriations Act.
 Organisation	 Integration with other instruments
<ul style="list-style-type: none"> HM Treasury, the Chancellor of the Exchequer, Secretaries of State and all departments are involved. HM Treasury coordinates the overall process, working with departments on spending options. HM Treasury operates on a two-layered structure: a central team overseeing the overall process and department-facing spending teams facilitating negotiations with individual departments. 	<ul style="list-style-type: none"> Strongly integrated into the medium-term budgeting process. Limited, but increasing integration with policy evaluation. SRs are informed by policy evaluation and an Evaluation Taskforce¹⁶⁵ has been involved to ensure stronger evaluation since 2020.

The UK spending review framework also encompasses **efficiency reviews**, also known as efficiency and savings reviews, that are efficiency exercises aimed at identifying saving options and opportunities for improvement across the public sector. From the standpoint of Estonia and Finland, the spending review instrument in the UK is more similar to a medium-term budgeting tool, while UK's efficiency reviews can be linked to a standard spending review in other countries.

The UK spending review framework encompasses two review types (see Appendix 7):

¹⁶⁴ HM Treasury. (2023). Managing Public Money. <https://www.gov.uk/government/publications/managing-public-money>

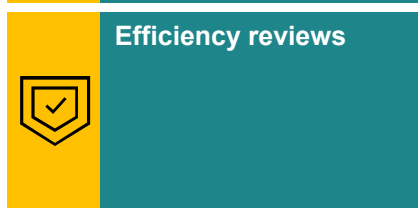
¹⁶⁵ The Evaluation Taskforce is a joint unit of the Cabinet Office and HMT aiming to enhance government program evaluation. Its goal is to inform decisions regarding program continuation, expansion, modification, or cessation.



Spending reviews

=

UK Government sets out its long-term plans for public expenditure and departmental budgets.



Efficiency reviews

=

UK Government sets out to strategically assess service delivery throughout the public sector, looking for opportunities to make efficiency improvements and maximise value for money. Focus is on both allocative and technical efficiency. Efficiency reviews are typically a part of spending reviews but can be conducted separately.

The history of spending reviews in the UK began in 1998 when the first spending review was published. This introduced multi-year, medium-term budget planning in the UK, bringing a new strategic approach to public spending and establishing a set process to scrutinise and prioritise government spending.¹⁶⁶ Prior to this, Public Expenditure Surveys and negotiations between the Treasury and the departments, were done annually¹⁶⁷ and budgets typically included a five-year forward look at probable spending in certain areas. However, these forecasts were not taken seriously and were most often disregarded.¹⁶⁸

Political decisions based on the evidence of effectiveness are at the heart of the spending review process. The process of spending effectiveness assessment has increasingly focused on scrutiny of policies against performance targets and departmental plans to deliver against (spending reviews from 2000¹⁶⁹, 2002¹⁷⁰, 2004¹⁷¹, 2007). The scrutiny of spendings included the use of zero-based reviews, analytical assessments of performance and value for money, as well as focusing on how to deliver transformative public services.

Over time, the process evolved: the number of performance targets decreased from 300 targets in the 1998 spending review to 30 targets in the 2007 Spending Review.¹⁷² This reduction aimed to address conflicting targets that undermined departmental accountability and overwhelmed administration. The nature of the targets began to evolve from simple input-based targets to more sophisticated outcome-based ones.¹⁷³ At the

¹⁶⁶ Smith, S. (2020). *Budget and the spending review*. House of Lords Library. <https://lordslibrary.parliament.uk/budget-and-the-spending-review/>

¹⁶⁷ Curtis, R. (2014). UK Spending reviews. HM Treasury. https://ec.europa.eu/economy_finance/events/2014/20140211-meeting/documents/sessioni4curtis_en.pdf

¹⁶⁸ Talbot, C. (2021). Spending reviews: a short history. Civil Service World. <https://www.civilserviceworld.com/in-depth/article/spending-reviews-a-short-history>

¹⁶⁹ HM Treasury. (2000). Spending Review 2000. The National Archives. <https://www.gov.uk/government/publications/comprehensive-spending-review-2000>

¹⁷⁰ HM Treasury. (2002). Spending Review 2002. National Archives. https://webarchive.nationalarchives.gov.uk/ukgwa/20071204144533/http://www.hm-treasury.gov.uk/spending_review/spend_sr02/report/spend_sr02_repindex.cfm

¹⁷¹ HM Treasury. (2004). Spending Review 2004. The National Archives. https://webarchive.nationalarchives.gov.uk/ukgwa/20071204140553/http://www.hm-treasury.gov.uk/spending_review/spend_sr04/report/spend_sr04_repindex.cfm

¹⁷² HM Treasury. (2007). The Comprehensive Spending Review 2007. <https://www.gov.uk/government/publications/pre-budget-report-and-comprehensive-spending-review-2007>

¹⁷³ Balls, E. (2019). *The Political Economy of Public Spending Reviews: The UK Experience Since 1997*. M-RCBC Associate Working Paper Series No. 113. Harvard Kennedy School, 10-11. https://www.hks.harvard.edu/sites/default/files/centers/mrcbg/files/113_final_V2.pdf

same time, efficiency reviews (such as the 2004 Gershon Review)¹⁷⁴ were conducted to identify savings options across the UK's public services.¹⁷⁵

The Comprehensive Spending Review (CSR) of 2007 marked a significant milestone in the UK's spending review evolution. Conducted with the aim of fundamentally reviewing government spending patterns, it examined the outcomes of prior spending reviews while outlining strategic directions for the subsequent decade. The impact of preceding spending reviews, notably the 2004 iteration, was significant, with substantial efficiency gains exceeding Great British Pounds (GBP) 20 billion and workforce reallocations within the civil service and public sector.¹⁷⁶ Prior to the 2007 CSR, extensive evaluation and analytical groundwork was undertaken to inform its strategic objectives.¹⁷⁷

Starting from 2007, there has been a shift towards using the SR process for identifying efficiencies rather than saving measures. This shift, combined with moving away from rolling over departments' current spending, has led to a greater focus on the value for money of spending areas. For instance, the 2010 CSR involved a special Government Property Unit to increase the efficiency and value for money of government real estate, resulting in the identification of saving opportunities exceeding GBP 1 billion. Ultimately, the 2010 Spending review is estimated to have generated GBP 80 billion of savings between 2011-2012 and 2014-2015, achieving annual efficiency savings of GBP 20 billion by 2015.¹⁷⁸ The focus on efficiency continued in 2023 with the establishment of the Government Efficiency Framework, aimed at providing guidance for departments on tracking and reporting efficiencies.¹⁷⁹

Historically, the UK has primarily conducted **comprehensive spending reviews** which provide a holistic overview of government finances as they cover the spending of all departments. They are carried out approximately every three years to allocate funding to departments. However, the **scope and objectives of spending reviews in the UK vary depending on fiscal, political and economic circumstances**. The specific governance and operating model used may also change with each spending review round. For example, 2010 SR was focused more on driving efficiency over a multi-year settlement following the "great recession" and utilised a "star chamber" governance model.¹⁸⁰ The SRs in 2019 and 2020 were both in the form of one-year settlements due to the uncertainty created by Brexit and COVID-19, respectively, which was making longer-term

¹⁷⁴ Gershon, P. (2004). Releasing resources to the front line: Independent Review of Public Sector Efficiency. HM Treasury. https://www.civilservant.org.uk/library/2004_gershon_releasing_resources_to_the_front_line.pdf

¹⁷⁵ Robinson, M. (2014). Spending reviews. OECD Journal on Budgeting, 2013/2, 10.

¹⁷⁶ HM Treasury. (2007). Meeting the aspirations of the British people - 2007 Pre-Budget Report and Comprehensive Spending Review, Cm 7227, pp. 42. <https://assets.publishing.service.gov.uk/media/5a7ce46ced915d36e95f04be/7227.pdf>.

¹⁷⁷ HM Treasury. (2006). Pre-Budget Report 2006 - Chapter 6: Delivering high-quality public services. Cm 6984, p. 135-136. https://webarchive.nationalarchives.gov.uk/ukgwa/20071204144511mp_/http://www.hm-treasury.gov.uk/media/2/D/pbr06_chapter6.pdf

¹⁷⁸ Curtis, R. (2014). UK Spending reviews. HM Treasury, https://ec.europa.eu/economy_finance/events/2014/20140211-meeting/documents/sessioni4curtis_en.pdf

¹⁷⁹ Knowledge sharing session with the UK, 8 March 2024. See also HM Treasury. (2023). The Government Efficiency Framework. <https://www.gov.uk/government/publications/the-government-efficiency-framework/the-government-efficiency-framework>

¹⁸⁰ HM Treasury. (2010). The Spending Review framework 2010. <https://assets.publishing.service.gov.uk/media/5a7491b3e5274a44083b7b9c/7872.pdf>

prioritisation decisions more difficult.¹⁸¹ The 2021 Spending Review, in turn, is a good example of how a multi-year spending review process is running as it is standardised, has clear objectives and outcomes that identified many areas for efficiency and savings in government.¹⁸² For this reason, the 2021 SR will be considered in more detail from the process perspective in Chapter 7.4.

7.2. Spending Review Framework

Legal Context

The legal basis of spending reviews in the UK is not explicitly established through specific legislation or a constitutional framework. Rather, spending reviews operate more as a convention or administrative process on a set of principles. The UK government conducts spending reviews as part of its fiscal management and strategic planning. The government has the flexibility to initiate spending reviews based on its economic and policy priorities. Changes to the spending plans outlined in reviews can be made through administrative decisions.¹⁸³

Spending reviews are incorporated into the **budgeting process** through the **Supply Estimates process**, which together with the Budget cycle comprise the budgeting process framework - Figure 9. The Supply Estimates process is the process by which Parliament approves the Government's spending plans, also known as spending limits, for each financial year. The spending plans are based on the departmental settlements allocated in the spending reviews for each government department for the subsequent three to four financial years.¹⁸⁴

In the Supply Estimates process, spending plans are presented to Parliament through various stages, including the Vote on Account, Main Estimates and Supplementary Estimates. Main Estimates outline the Government's formal annual spending plans for each department, their agencies and bodies. They cover Total Managed Expenditure that includes Resource and Capital Department Expenditure Limits (DEL), which is what is covered in the spending review, and Annually Managed Expenditure (AME).¹⁸⁵ The Supply and Appropriations Act is the legal basis for Main Estimates and Supplementary Estimates stages. Supplementary Estimates involve additional requests to Parliament to authorise new funding levels and occur as needed. Exceptional requests, also known as

¹⁸¹ HM Treasury. (2019). Spending Round 2019. <https://www.gov.uk/government/publications/spending-round-2019-document> and HM Treasury. (2020). Spending Round 2020. <https://www.gov.uk/government/publications/spending-review-2020-documents>

¹⁸² HM Treasury. (2021). Spending Review 2021. <https://www.gov.uk/government/publications/autumn-budget-and-spending-review-2021-documents>

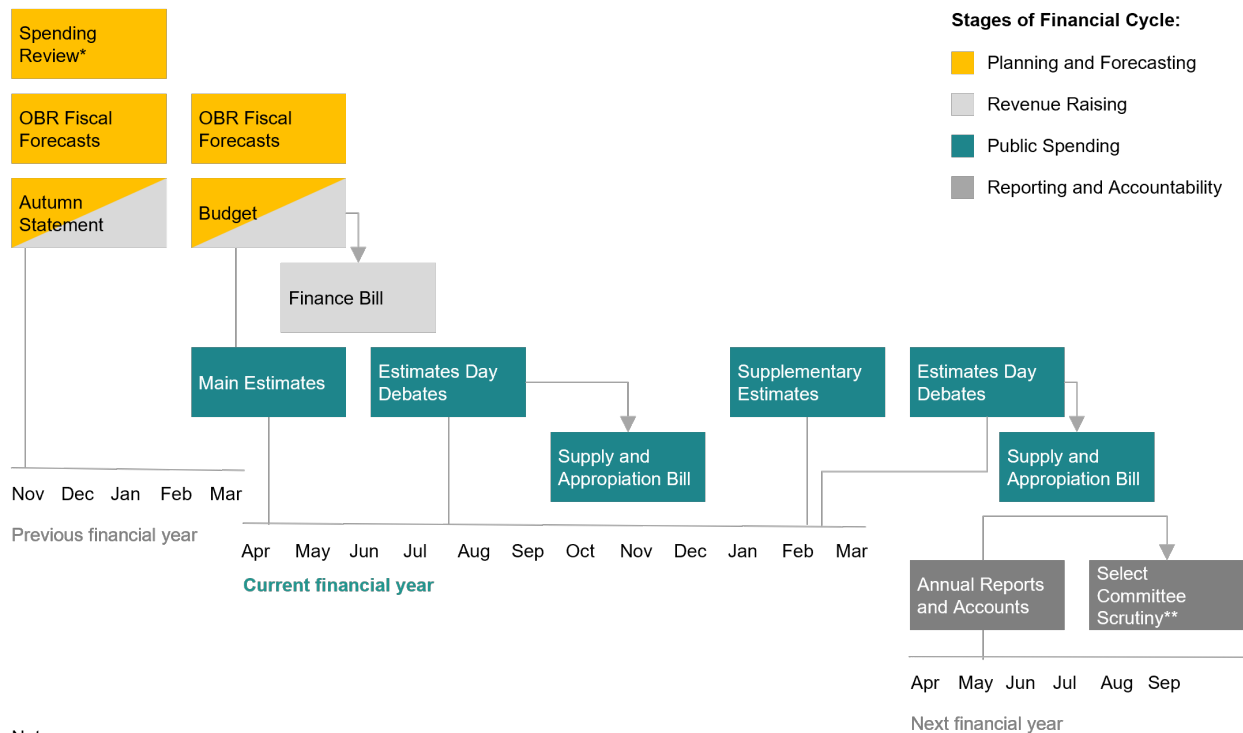
¹⁸³ HM Treasury. (2010). The spending review framework. <https://www.gov.uk/government/publications/the-spending-review-framework>

¹⁸⁴ Hansard Society. (2023). The Estimates: A procedural and constitutional guide. Hansard Society: London. <https://www.hansardsociety.org.uk/publications/guides/how-does-parliament-approve-government-spending-procedural-guide>

¹⁸⁵ Hansard Society. (2023). The Estimates: A procedural and constitutional guide. Hansard Society: London. <https://www.hansardsociety.org.uk/publications/guides/how-does-parliament-approve-government-spending-procedural-guide>

Statements of Excesses, are possible to make if a department spends money beyond the level approved by Parliament.¹⁸⁶

The UK's state budgeting process operates under a combination of financial procedures, principles and tax laws, rather than a single governing law. A key principle is that only the House of Commons (see Organisational Structure for more details) has the authority to authorise government spending and taxation, known as **Commons financial privilege**. This privilege is established in law both through the Parliament Acts and customary practice. The House of Commons approves taxation plans through the Budget cycle and spending plans through the Estimates cycle. While the House of Lords can consider and agree on financial matters, it cannot amend or block them.¹⁸⁷



Notes:

* Spending Review happens once every 3-4 years

** Select Committee Scrutiny of Departmental Annual Reports and Accounts may continue well into financial year

Figure 9. Stages of the UK's financial cycle¹⁸⁸

During the budgeting process, HM Treasury might adjust the departmental spending limits of some departments set in the Spending Review to reflect changes in the government's priorities. Thus, spending reviews are not legally binding. While the Spending Reviews help departments outline their spending plans and may influence the amounts sought in the Estimates, there is no legal constraint preventing the Government

¹⁸⁶ Hansard Society. (2023). The Estimates: A procedural and constitutional guide. Hansard Society: London. <https://www.hansardsociety.org.uk/publications/guides/how-does-parliament-approve-government-spending-procedural-guide>

¹⁸⁷ See more on the Commons financial privilege: UK Parliament. (2011). Financial Privilege: A note by the Clerk of the House and the Clerk of Legislation. <https://www.parliament.uk/globalassets/documents/commons-information-office/financial-privilege.pdf>

¹⁸⁸ Hansard Society. (2023). The Estimates: A procedural and constitutional guide. Hansard Society: London. <https://www.hansardsociety.org.uk/publications/guides/how-does-parliament-approve-government-spending-procedural-guide>

from altering its plans subsequently.¹⁸⁹ **Outcome Delivery Plans** (ODPs) are revised annually to reflect such policy decisions and spending adjustments.¹⁹⁰

UK's fiscal framework also includes various other processes to ensure transparency and accountability in government spending. One such process is the **Annual Report and Resource Account** (ARA), which provides a comprehensive overview of government organisations' finances, including income, expenditure, assets and liabilities. These reports are mandated for all government organisations involved in the Supply Estimates process and are presented in Parliament annually.¹⁹¹ Additionally, the Government must follow spending processes called the **Whole of Government Accounts** and **Public Expenditure Statistical Analysis**. The first is a consolidated set of financial statements for the UK public sector, prepared by the Treasury, that covers all government departments, devolved administration, health care and local authorities. The latter is a document prepared for Parliament that includes statistics on public spending. Furthermore, the **Treasury's Consolidated Budgeting Guidance** establishes principles and standards for budgeting across central government bodies, ensuring consistency and accountability in the budgeting process. The guidance is updated every year to reflect any changes in the budgeting framework.¹⁹²

Organisational Structure

In order to provide a full and complete overview of the spending review process' governance structure, this sub-section is structured as follows. First, a brief summary of the structure of the UK government is presented. Second, the governance and mechanisms of the spending review process are examined.

His Majesty's Government (HM Government) comprises the Prime Minister, the Cabinet and junior ministers (members of Parliament who assist Cabinet ministers in their duties), supported by non-political civil servants who work in government departments.¹⁹³ The Cabinet consists of the senior government members, including Secretaries of State from all departments, with a total of 23 Cabinet ministers and 102 departmental ministers accountable for their respective departments' outcomes.¹⁹⁴

Departments and their agencies implement government policy.¹⁹⁵ There are 24 ministerial departments and 20 non-ministerial departments.¹⁹⁶ Executive agencies within departments deliver government services. Additionally, four types of non-departmental public bodies (NDPBs) report directly to ministers.¹⁹⁵ For example, Advisory NDPBs provide independent, expert advice, while executive NDPBs perform government tasks

¹⁸⁹ Keep, M., Brien, P., Francis-Devine, B. & Harari, D. (2021). Background to the Autumn Budget and Spending Review 2021., House of Commons Library. <https://researchbriefings.files.parliament.uk/documents/CBP-9349/CBP-9349.pdf> p. 11.

¹⁹⁰ HM Treasury. (2021). The government's planning and performance framework. <https://www.gov.uk/government/publications/planning-and-performance-framework/the-governments-planning-and-performance-framework>

¹⁹¹ HM Treasury. (2021). The government's planning and performance framework. <https://www.gov.uk/government/publications/planning-and-performance-framework/the-governments-planning-and-performance-framework>

¹⁹² HM Treasury. (2023). Consolidated budgeting guidance 2023 to 2024. <https://www.gov.uk/government/publications/consolidated-budgeting-guidance-2023-to-2024>

¹⁹³ UK Parliament. (n.d.). Parliament and the Government. <https://www.parliament.uk/about/how/role/relations-with-other-institutions/parliament-government/>

¹⁹⁴ See UK Government. (2024). Ministers. <https://www.gov.uk/government/ministers>

¹⁹⁵ UK Government. (n.d.). How government works. <https://www.gov.uk/government/how-government-works>

in specific areas (e.g. HM Treasury works with the Office for Budget Responsibility NDPB).^{196 195 196}

Parliament consists of the **House of Commons** and the **House of Lords**. Its primary function is to monitor the Government and to hold the Government accountable for its actions and decisions. Parliament's role lays also in setting taxes and deciding spending.^{195 197}

Spending review process governance

Spending reviews are carried out by HM Treasury and involve the Chancellor of the Exchequer (CX), the Secretaries of State (SoS), the Chief Secretary to the Treasury (CST), the Treasury officials and the Office for Budget Responsibility (OBR)¹⁹⁸ (see Table 21 for an overview of the actors involved). The exact structure of the governance may vary with each review round: for instance, a so-called “star chamber” model¹⁹⁹ has been used for some spending reviews, while other times a department-led approach might be used for certain themes, such as net zero. This variation poses a challenge in crafting a governance model akin to those designed for the other best practice countries. Crafting a governance model for the operation of spending reviews and efficiency reviews was deemed unfeasible by the HM Treasury.²⁰⁰

The CX is typically responsible for overseeing the overall spending review and, in consultation with the PM, makes the final decisions on the allocation of resources. The CX decides how and when a spending review should be conducted, including the process that should be undertaken and how many years the SR will cover.²⁰¹ The SoS across departments are responsible for submitting their spending proposals, based on the guidance and criteria provided by the CX. CST leads the spending review process on behalf of the CX, coordinating and engaging relevant stakeholders including the negotiations with the SoS for each department. The Treasury officials draft the guidance and criteria for the spending review, run the process and analyse spending proposals.²⁰²

Table 21. Elements of the UK Government relevant to the spending review process.

Chancellor of the Exchequer (CX) is the government's chief finance minister and one of the most senior members of the Cabinet, which is responsible for setting levels of taxation and public spending across the UK, as well as announcing changes to these in the annual Budget statement. The CX has overall responsibility for HM Treasury.²⁰³

¹⁹⁶ UK Government. (n.d.). Departments, agencies and public bodies.

https://www.gov.uk/government/organisations#non_ministerial_departments

¹⁹⁷ UK Parliament. (n.d.). Parliament and the Government. <https://www.parliament.uk/about/how/role/relations-with-other-institutions/parliament-government/>

¹⁹⁸ HM Treasury. (2020). Spending Review 2020. <https://www.gov.uk/government/publications/spending-review-2020-documents/spending-review-2020>

¹⁹⁹ The "star chamber model" refers to a committee structure designed to challenge departmental spending plans and promote innovative thinking. It involves senior officials from line ministries assisting the HMT in scrutinising the spending proposals of their peers.

²⁰⁰ Information provided by HM Treasury, March 2024. (email from 22.3.2024)

²⁰¹ Smith, S. (2020). Budget and the spending review. House of Lords Library. <https://lordslibrary.parliament.uk/budget-and-the-spending-review/>

²⁰² Smith, S. (2020). Budget and the spending review. House of Lords Library. <https://lordslibrary.parliament.uk/budget-and-the-spending-review/>

²⁰³ UK Parliament. (2024). Chancellor of the Exchequer. <https://www.parliament.uk/site-information/glossary/chancellor-of-the-exchequer/>

Secretary of State (SoS): this title is typically held by Cabinet Ministers responsible for Government Departments. Most of the departments are run by a Secretary of State. However, there can be some exceptions, e.g., the CX heads HM Treasury.²⁰⁴

HM Treasury (HMT) is the government's economic and finance ministry that maintains control over public spending, sets the direction of the UK's economic policy, and works on achieving strong and sustainable economic growth. HMT is a ministerial department, supported by 16 agencies and public bodies (e.g., Government Internal Audit Agency, Office for Budget Responsibility, etc.).¹⁹⁶HMT's responsibilities encompass public spending (incl. departmental spending, public sector pay and pension, annually managed expenditure and welfare policy, capital investment), financial services policy, and strategic oversight of the UK tax system. Also, HMT is responsible for the delivery of infrastructure projects across the public sector and facilitating private sector investment into UK infrastructure, as well as ensuring sustainable economic growth.^{205 205}

Chief Secretary to the Treasury (CST) is the second most senior ministerial post after the CX in the HMT.²⁰⁶ CST is responsible for public expenditure (incl. spending reviews and strategic planning).²⁰⁷

The Office for Budget Responsibility (OBR) was created in 2010 to provide independent and authoritative analysis of the UK's public finances. OBR's areas of responsibility are economic and fiscal forecasting, evaluating performance against fiscal targets, sustainability and balance sheet analysis, evaluations of fiscal risks, and scrutinising tax and welfare policy costing.²⁰⁸

Cabinet Office, the UK government department responsible for supporting the Prime Minister and Cabinet. The Cabinet Office collaborates with HMT to promote efficiency, effectiveness and quality of public services. Cabinet Office Functions support the identification and assurance of efficiency options through close cooperation with HMT and departmental functions. The Cabinet Office monitors and reports on efficiency savings made by cross-cutting government functions.²⁰⁹

Two-layered HM Treasury structure for Spending reviews

HMT operates on a two-layered structure for spending reviews. It involves a central layer, **the General Expenditure Policy (GEP) team**, positioned at the core of HMT. Supporting this central unit are **department-facing Treasury spending teams**, serving to facilitate the overall process. Under this configuration, the spending teams take on the role of representing the department they work with to the central team in HMT that maintains the overall "scorecard". Departments usually work and negotiate with their corresponding Treasury spending team only. The central unit GEP is responsible for controlling and coordinating the whole SR process. This layered structure streamlines communication and ensures a clear negotiation process.²¹⁰

As negotiations progress between departments and their corresponding Treasury spending teams, Secretaries of State engage in a similar process, albeit directly liaising with the Chief Secretary of the Treasury. The Chief Secretary, in turn, seeks guidance from both the central GEP team and the departmental spending teams in order to make informed decisions during the negotiation process.²¹¹

²⁰⁴ UK Parliament. (2024). Secretary of State. <https://www.parliament.uk/site-information/glossary/secretary-of-state/>

²⁰⁵ HM Treasury. (n.d.). About us. <https://www.gov.uk/government/organisations/hm-treasury/about>

²⁰⁶ Collins Dictionary. (2023). Definition of 'Chief Secretary to the Treasury'. <https://www.collinsdictionary.com/dictionary/english/chief-secretary-to-the-treasury>

²⁰⁷ UK Government. (n.d.). Chief Secretary to the Treasury. <https://www.gov.uk/government/ministers/chief-secretary-to-the-treasury>

²⁰⁸ Office for Budget Responsibility. (n.d.). What we do. <https://obr.uk/about-the-obr/what-we-do/>

²⁰⁹ National Audit Office. (2023). Cabinet Office functional savings. <https://www.nao.org.uk/wp-content/uploads/2023/10/Report-cabinet-office-functional-savings.pdf>

²¹⁰ Interview with PwC UK expert, Philip Platts, 14.12.2023

²¹¹ Interview with PwC UK expert, Philip Platts, 14.12.2023.

Operational and Technological Setup

Spending reviews follow a structured process overseen by HMT and CST, though it is not regulated or outlined in any central guidance. This is why the process may vary each review round. The process often includes:

A formal launch by the Chancellor

Templates being issued by HMT to be completed by departments

An internal process conducted by departments

Series of informal and formal negotiations

1

The formal launch of a spending review process begins with the Launch Letter, where the Chancellor notifies each department's Secretary of State of the start of a spending review, outlining the process and establishing a negotiated baseline.

The launch letter will often set out the government priorities, and the most important areas towards which the CX expects government spending to be directed. The launch will often also set out the CX expectations around reform and efficiency. In addition, HMT will typically ask the Office for Budget Responsibility for a forecast. The forecast indicates the government's fiscal compliance and available fiscal headroom, influencing the determination of spending limits for the government over the spending review period (overall "envelope").²¹²

2

HM Treasury officials issue specific templates for departments to complete and return.

The templates cover financial and workforce information, along with a request for details on all major capital projects (CDEL projects) and their business cases. While resource spending (RDEL) is often considered against an existing baseline, all capital spending (CDEL) is zero-based and must be presented with a specific value-for-money assessment in line with the Green Book guidance.²¹³

3

Each department follows its own process in response to the templates issued by HM Treasury.

This internal process may start before the official launch and can vary across departments, tailored to best suit their specific needs, but it consistently follows a general trend focused on a comprehensive **exercise of prioritisation**. This exercise **involves** 1) determining the department's current spending baseline and forecasting future spending, and 2) assessing strategic priorities and considering whether certain programmes should be deprioritised. This phase includes developing an assessment framework for policy decisions. This is followed by 3) a thorough analysis of outcome delivery and the value for money of areas of spending. **This phase also integrates the insights** from Efficiency Reviews, aiming to identify opportunities for savings and efficiency improvements. This means identification of productivity and efficiency options, developing a set of savings options and more detailed testing of options with relevant business areas. Finally, 4) to determine what goes into the return to HMT, internal negotiations take place within

²¹² Bartrum, O. & Paxton, B. (2024). Explainer on Spending Reviews. Institute for Government, 29 Jan 2024. <https://www.instituteforgovernment.org.uk/explainer/spending-reviews>

²¹³ Interview with PwC UK expert, Philip Platts, 14.12.2023.

departments to establish the appropriate funding levels for each programme. The focus is on ensuring the financial sustainability of each programme, considering its long-term viability within the allocated budget, as well as where real savings can be made and efficiency can be improved.²¹⁴

4

Each department returns the results of the analysis to HM Treasury.

Departments will complete a return in line with the guidance and template provided by the Treasury, often supported by letters submitted by the Permanent Secretary or Finance Director General explaining the bid and choices made within it. The returns are scrutinised by HMT spending teams and are used as the basis of a series of informal, official-level negotiations involving clarification questions and rationale discussions.

5

Formal negotiations led by the Chief Secretary of the Treasury with each Secretary of State, where funding decisions are challenged and priorities are agreed.

The objective of these negotiations is to mutually agree on each department's spending envelopes and priority outcomes. Some decisions and negotiations are escalated to the CX.

6

Upon completion, a final formal settlement letter is issued by HM Treasury, outlining funding allocations, controls on spending and expectations for delivery.

The outcomes are published in the Spending Review document as part of the budget announcement.

During the spending review process, HMT writes to organisations outside government and asks for written representations from wider public interest groups, such as lobbying entities and think tanks. This process allows external voices to contribute opinions on government spending priorities, influencing decisions on resource allocations.²¹⁵

As part of Spending Reviews, the UK government typically launches Efficiency Reviews at the same time. Anchoring efficiency exercises to a spending review allows HMT to assess efficiency within a department at the same time as allocating its budget. Each review process may look different. The process may involve all departments or be only an individual negotiation between HM Treasury and a specific department. The approach to efficiency reviews can vary significantly depending on the political and fiscal situation. Efficiency Reviews might also be carried out independently of spending reviews as separate, additional efficiency exercises. For example, a separate efficiency and savings review was done in 2022 by HMT to further identify efficiency and savings options to offset pressure.²¹⁶

Efficiency Reviews are initiated by HMT after agreeing with the CX on the objectives of the ER. Typically, these objectives involve departments reviewing their programmes' efficiencies and **delivering**

²¹⁴ Interview with PwC UK expert, Philip Platts, 14.12.2023.; Knowledge sharing session with the UK, March 2024.

²¹⁵ See HM Treasury. (2021). Guidance for submitting your Budget or Spending Review representation. <https://www.gov.uk/government/publications/autumn-budget-and-spending-review-2021-representations/guidance-for-submitting-your-budget-or-spending-review-representation>

²¹⁶ Weston, T. (2023). The government's spending efficiency drive. House of Lords Library. <https://lordslibrary.parliament.uk/the-governments-spending-efficiency-drive/>

a **designated percentage (e.g., 5%, 10% or 20%) of savings** against their departmental budgets. The CX will also indicate **specific areas the departments are expected to focus on**, such as workforce efficiency and technology adoption. The approach to selecting focus areas is flexible and adaptable to changing circumstances and emerging challenges. Cabinet ministers may give their views on what the efficiency review should focus on. Their input and ideas are explored and evaluated by HMT. The savings target and focus areas are typically outlined in the Launch letter of the spending review which is first sent to the SoSs and subsequently to the departments to process.²¹⁷

Each department undergoes an internal process to identify potential efficiency options, typically spanning two-three months. This involves examining baseline expenditures, evaluating programmes and operating costs, and prioritising areas for improvements. Departments employ strategies like **benchmarking** against other government departments, industry standards, and international benchmarks. They also focus on **business process redesign** to target outdated processes, resulting from legacy data systems for example. While HMT expects all departments to propose recommendations for efficiency improvements, the specific methodology to do that is determined independently by each department.²¹⁸

Once efficiency savings opportunities are identified, they undergo **assessment for their financial value**, requiring detailed analysis to determine implementation strategies. The SoS for each department ultimately delivers the results of the Efficiency Review to HMT, initiating a structured negotiation process between HMT and the respective department.²¹⁹

Throughout this process, departments may receive support from an **Efficiency committee**, a central unit operating for example within HMT or the Cabinet Office. The committee is typically set up to provide centralised guidance on identifying opportunities for efficiencies and to review responses from departments. A dedicated team of officials may support the efficiency committee in facilitating this collaborative process.²²⁰ The variability of the efficiency review process means that a committee may not always be present.

Additionally, external consultants may be brought in to review particular facets of operations, bringing fresh perspectives and methodologies to assess various areas for improvement. For example, the consulting company Deloitte was commissioned to evaluate staffing and human resources at the Royal Navy's headquarters, pinpointing opportunities for savings.²²¹

Previously, HMT did not conduct formal follow-ups on the implementations of efficiency review findings within departments. Since 2023, the Government Efficiency Framework has been established to set a standard approach for tracking, monitoring and overseeing efficiency savings. This framework provides clear definitions and reporting standards for efficiency savings, offers best practice guidance for reporting processes, and outlines how departments should report efficiency savings to HM Treasury.²²²

The efficiency reviews now focus on two main types of efficiency as outlined in the 2023 Government Efficiency Framework²²³:



Technical efficiency

Entails achieving desired outcomes with minimal resource input or enhancing outputs without increasing resource allocation. For instance, by automating processes in a call centre, a department can handle the same workload with fewer staff, exemplifying technical efficiency. This approach optimises resource utilisation, bolstering operational effectiveness and output.

²¹⁷ Interview with PwC UK expert, Philip Platts, 14.12.2023.

²¹⁸ Knowledge sharing session with the UK, 8 March 2024.

²¹⁹ Interview with PwC UK expert, Philip Platts, 14.12.2023.; Knowledge sharing session with the UK, March 2024.

²²⁰ Interview with PwC UK expert, Philip Platts, 14.12.2023..

²²¹ Knowledge sharing session with the UK, 8 March 2024.

²²² HM Treasury. (2023). The Government Efficiency Framework. <https://www.gov.uk/government/publications/the-government-efficiency-framework/the-government-efficiency-framework>

²²³ HM Treasury. (2023). The Government Efficiency Framework. <https://www.gov.uk/government/publications/the-government-efficiency-framework/the-government-efficiency-framework>



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. For instance, a department prioritising disease eradication may shift resources from treatment to preventative support, achieving the same outcomes more efficiently through early intervention strategies such as vaccinations.

The relationship between the different types of efficiency and value for money can be seen in more detail in Appendix 8.

Spending review implementation

Following the completion of a spending review, the main government departments release plans called Outcome Delivery Plans (ODPs). Used since 2020 following a reform on the government's planning and performance framework, ODPs detail how the departments will implement the priorities and spending decisions set in the spending review over the course of the Parliamentary term. ODPs are informed by the spending review settlements.²²⁴ To assess the progress in delivering their priority outcomes, departments share regular performance reports with HM Treasury and the Cabinet Office.²²⁵

Technological setup

All spending review documents are available for public access online. Documents predating 2007 have been archived in the UK Government Web Archive.²²⁶ However, efficiency reviews are not currently disclosed or published online. The UK Government releases official statistics and public data on performance and spending through various platforms, such as the GOV.UK. Departments publish data on the progress of projects currently in the Government Major Projects Portfolio (GMPP), which is updated annually.²²⁷

In 2020, Cabinet Office's Government Digital Service established a cross-government panel to assess the IT elements and digitalisation potentials of departmental SR proposals. This panel consists of officials across Cabinet Office, the Government Digital Service, the Government Commercial Service, HMT and the Digital Economy Council. Following thorough analysis, the panel presents recommendations to Treasury spending teams to assist them in determining the most effective allocation of funding.²²⁸

Additional digital tools have been used in the process of newer spending reviews to enhance public participation. For example, in the process of Spending Review 2020,

²²⁴ Doherty, L., & Sayegh, A. (2022). How to Design and Institutionalize Spending Reviews. IMF How To Notes, 2022/004, 17. See more on ODPs: Clyne, R., Davies, N. (2022). Outcome delivery plans - The case for keeping and improving the government's performance framework. Institute for Government. <https://www.instituteforgovernment.org.uk/sites/default/files/publications/outcome-delivery-plans.pdf>

²²⁵ HM Treasury. (2021). Spending Review 2021: Priority outcomes and metrics. https://assets.publishing.service.gov.uk/media/61798994e90e07197867ec3f/Supplementary_Document_on_Outcomes_Metrics.pdf

²²⁶ HM Treasury. (2007). Spending Reviews. The National Archives. https://webarchive.nationalarchives.gov.uk/ukgwa/20071204130420/http://www.hm-treasury.gov.uk/spending_review/spend_index.cfm

²²⁷ HM Treasury. (2021). The government's planning and performance framework. <https://www.gov.uk/government/publications/planning-and-performance-framework/the-governments-planning-and-performance-framework#Official-statistics-and-other-public-data-releases>

²²⁸ Government Digital Service. (2021). Spending Review - getting the right funding for the right challenges. Blog of UK Government. <https://gds.blog.gov.uk/2021/01/19/spending-review-getting-the-right-funding-for-the-right-challenges/>

SmartSurvey²²⁹ was used as a platform to collect submissions for Comprehensive Spending Review representations. Representations are written feedback that comments on government policy or suggests new policy ideas for the spending review, submitted by an interest group, individual or representative body to HMT.²³⁰ SmartSurvey is a UK-based provider of digital survey solutions that allows the creation of customised surveys to simplify the collection of information.²³¹ The same was done for the 2021 Spending Review as well.²³²

Spending Challenge

In 2010, the UK Government used Dialogue App to engage with citizens and encourage them to submit ideas on how to spend money more effectively and reduce waste in order to address the budget deficit. As a result, 63,000 ideas were submitted from the public sector. Consequently, 48,000 ideas that passed the screening process were posted on the Spending Challenge website for public review and vote. 2,000 top-rated ideas were further reviewed by government departments, after which 25 ideas were picked to be a part of the Chancellor's budget. While the challenge cost the UK Government GBP 19,300, the estimation of savings was over GBP 500 million.²³³

Overall, the current technological setup can manage basic functions such as account creation and spending approval processes but falls short in enabling comprehensive analysis necessary for evaluating departmental efficiency, productivity and the outcomes achieved. This is due to the lack of digital infrastructure and compatible data systems. Efforts are underway to address this by establishing a framework and standards that promote interoperability among departmental systems, enhancing communication and facilitating Treasury oversight. Legacy technology issues pose significant challenges, lengthening the transition process to more advanced systems. Investment in initiatives such as the Integrated Data Service aims to consolidate data for better analysis by analysts and researchers.²³⁴

7.3. Policy Evaluation Framework and Linkage to Spending Reviews

Policy evaluation in the UK is defined as a systematic assessment of the design, implementation and outcomes of an intervention, with the purpose of providing insights into the effects of an intervention.

²²⁹ See more about SmartSurvey <https://www.smartsurvey.co.uk/>

²³⁰ HM Treasury. (2020). Comprehensive Spending Review 2020 representations: guidance. <https://www.gov.uk/government/publications/comprehensive-spending-review-2020-representations-guidance/comprehensive-spending-review-2020-representations-guidance>

²³¹ SmartSurvey. (n.d.). About Us. <https://www.smartsurvey.co.uk/company/about-us>

²³² HM Treasury. (2021). Guidance for submitting your Budget or Spending Review representation. <https://www.gov.uk/government/publications/autumn-budget-and-spending-review-2021-representations-guidance-for-submitting-your-budget-or-spending-review-representation>

²³³ Local Government Association. (2016). Case study: HM Treasury - The Spending Challenge. <https://www.local.gov.uk/case-studies/case-study-hm-treasury-spending-challenge>

²³⁴ Knowledge sharing session with the UK, 8 March 2024.

The UK Government uses three types of evaluation²³⁵:

1	Process evaluation Which examines activities and implementation	2	Impact evaluation Which focuses on identifying the change in outcomes directly attributable to an intervention	3	Economic evaluation/ value-for-money evaluation Which gauges the benefits and costs of an intervention
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Legal Context

Currently, **there is no legislation on policy evaluation in the UK**. Instead, the legal framework for policy evaluation in the UK is structured around the following HMT-level guidance:

- Managing Public Money, guidance on handling public funds. It requires accounting officers to ensure projects and processes are systematically evaluated.²³⁶
- The Green Book, guidance on options appraisal and evaluation. It provides a structured framework for assessing the economic, social and environmental impacts of proposed projects before, during and after implementation.²³⁷
- The Magenta Book, detailed guidance on evaluation and its design. It provides best practices on evaluation methods.²³⁸

Organisational Structure

The requirements of departments to undertake evaluations of their interventions are set out in the aforementioned HMT guidance. The guidance, however, does not assign a single body with the sole responsibility for policy evaluation. Policy evaluation is instead done at different levels across government, by several central departments and department's analysis, policy and finance teams as well as other government functions. The current practice has been in place since 2020 after the central government began to make strategic actions to improve policy evaluation.²³⁹

Table 22. The actors involved in policy evaluation and their responsibilities.²⁴⁰

Responsible for delivering evaluations:

Departments, including chief analysts and heads of policy profession, are responsible for delivering evaluations and using evaluation evidence to inform decisions about current and future interventions, including providing evidence to support funding bids. Chief analysts and heads of policy profession include **Chief Scientific Advisers**, who work alongside senior teams to ensure strong

²³⁵ National Audit Office. (2021). Evaluating government spending 2021. <https://www.nao.org.uk/wp-content/uploads/2021/12/Evaluating-government-spending.pdf> p. 13.

²³⁶ HM Treasury. (2023). Managing Public Money. <https://www.gov.uk/government/publications/managing-public-money>

²³⁷ HM Treasury. (2023). The Green Book. <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government/the-green-book-2020>

²³⁸ HM Treasury. (2011). The Magenta Book. <https://www.gov.uk/government/publications/the-magenta-book>

²³⁹ National Audit Office. (2021). Evaluating government spending 2021, pp. 15-16, 20-21. <https://www.nao.org.uk/wp-content/uploads/2021/12/Evaluating-government-spending.pdf>.

²⁴⁰ National Audit Office. (2021). Evaluating government spending 2021, pp. 16. <https://www.nao.org.uk/wp-content/uploads/2021/12/Evaluating-government-spending.pdf>

evaluation evidence, and **Department Directors of Analysis** who are senior civil servants who oversee the evaluation delivery, prioritisation and budgeting of evaluation in their department.

Responsible for 1) setting evaluation requirements, driving demand for evaluation and monitoring compliance and 2) promoting the provision and use of evaluation, and providing support in developing the necessary capability:

Evaluation Task Force is a joint Cabinet Office and HMT unit, established following the Spending Review 2020. Its objective is to drive continuous improvements in the way government programmes are evaluated in order to inform decisions on whether they should be stopped, continued, expanded or modified. It is a part of the Cabinet Office Delivery Group.

HM Treasury publishes the Magenta Book, the central guidance on evaluation, and focuses on increasing the demand for and encouraging the use of evaluations in policy decision-making and strategic resource allocation across government.

Government Analysis Function Evaluation Support Team is a cross-government network aiming to improve the analytical capability of the civil service and to integrate analysis into decision-making. It sets professional standards for planning and undertaking analysis across government, including evaluation and offers training on evaluation methods.²⁴¹

Responsible for promoting the provision and use of evaluation, and providing support in developing the necessary capability:

Cross-Government Evaluation Group is a cross-departmental, cross-disciplinary group (with representation from most major departments) that supports the supply, demand and use of evaluation evidence to improve policy development, delivery and accountability across government. It produced the 2011 and 2020 updates of the Magenta Book.

The What Works Trial Advice Panel provides advice and support to help civil servants design and implement effective impact evaluations that will help departments understand whether programmes and policies are delivering desired outcomes.

Government Policy Profession is a cross-government network aiming to improve policy-making and to ensure better use of evidence. Understanding evaluation evidence and building evaluation into policy design is among its core competencies.

Operational Setup

Government departments individually assess the policies and interventions they finance or implement. Analysts within these departments take the lead in designing and executing evaluations, collaborating closely with policy and delivery officials responsible for the policies. To assist in this process, various cross-government teams and resources offer oversight and support to help departments create and implement thorough evaluations.²⁴²

Each department is obligated to publish its own evaluation strategy. The Treasury employs key levers, such as funding agreements and project approvals, exemplified by the Shared Outcomes Fund, to ensure compliance with evaluation requirements. While there has been a notable increase in the evaluation of government programmes over the past five years, comprehensive evaluation of all government spending has not been achieved. This indicates a need for standardisation and improvement across government practices, a challenge that the Evaluation Taskforce aims to address by setting out

²⁴¹ Cabinet Office. (2023). Evaluation Task Force- Strategy 2022-2025. https://assets.publishing.service.gov.uk/media/6425695a3d885d000fdadefe/2023-03-22_-_Final ETF strategy.pptx.pdf

²⁴² UK Government. (2022). The Evaluation Task Force Strategy 2022-2025. <https://www.gov.uk/government/publications/the-evaluation-task-force-strategy-2022-2025/the-evaluation-task-force-strategy-2022-2025-html>

standards for effective evaluation. Despite these efforts, there remains significant variation in evaluation practices across government departments.²⁴³

Linkage between Evaluations and Spending Reviews

In accordance with the Treasury Evaluation Strategy, evaluation results are used both to support policymaking and as part of the HMT's commitment to accountability. Evaluation results inform future delivery as well as official analysis, official advice to ministers and ministerial decisions.²⁴⁴ Some examples of policy evaluation results being used for spending reviews can be found below.

The 2007 Comprehensive Spending Review was informed by the analysis and conclusions of a series of detailed evaluations and reviews on specific cross-cutting issues.²⁴⁵ These included the Children and Young People Review²⁴⁶, Barker Review of Land Use Planning which examined how planning policy could better deliver economic growth and prosperity alongside other sustainable development goals²⁴⁷, and Review of the Economics of Climate Change, which examined the consequences of climate change and its implications for the UK.²⁴⁸ Additionally, the 2007 spending review incorporated insights from the Sub-national economic development and regeneration review.²⁴⁹

HMT has used information on policy evaluation that it had collected from departments in early 2020, to **inform the design of the Spending Review 2020 process**. Departments were tasked with providing evaluation evidence for individual lines of both capital and resource budget expenditure. A collaborative team from HMT and Cabinet Office used an assessment framework to examine the arrangements and strategies of each department for evaluating policy areas and expected outcomes throughout the Spending Review period.²⁵⁰ Furthermore, the decisions of the spending review 2021 were informed by quality evidence "in support of investment options and funding was confirmed in areas where a strong evidence base linked interventions to outcomes."^{251 244}

²⁴³ Knowledge sharing session with the UK, 8 March 2024.

²⁴⁴ UK Government. (2023). HM Treasury Evaluation Strategy. Policy Paper. <https://www.gov.uk/government/publications/hm-treasury-evaluation-strategy/hm-treasury-evaluation-strategy>

²⁴⁵ HM Treasury. (2007). CSR07: Policy Reviews. The National Archives. https://webarchive.nationalarchives.gov.uk/ukgwa/20071204131419/http://www.hm-treasury.gov.uk/spending_review/spend_csr07/reviews/spend_csr07_reviewsindex.cfm

²⁴⁶ HM Treasury. (2007). CSR07: Policy review of children and young people. The National Archives. https://webarchive.nationalarchives.gov.uk/ukgwa/20071204130918/http://www.hm-treasury.gov.uk/spending_review/spend_csr07/reviews/cyp_review/cyreview_index.cfm

²⁴⁷ HM Treasury. (2007). Barker Review of Land Use Planning. <https://assets.publishing.service.gov.uk/media/5a7c35b6ed915d76e2ebbd10/0118404857.pdf>

²⁴⁸ HM Treasury. (2007). Stern Review on the Economics of Climate Change. The National Archives. https://webarchive.nationalarchives.gov.uk/ukgwa/20071204130632/http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/sternreview_index.cfm

²⁴⁹ HM Treasury. (2007). Sub-national economic development and regeneration review. The National Archives. https://webarchive.nationalarchives.gov.uk/ukgwa/20071204130957/http://www.hm-treasury.gov.uk/spending_review/spend_csr07/reviews/subnational_econ_review.cfm

²⁵⁰ National Audit Office (2021) "Evaluating government spending", Session 2021-2022, 2 Dec 2021, HC 860, pp. 21. <https://www.nao.org.uk/wp-content/uploads/2021/12/Evaluating-government-spending.pdf>

²⁵¹ HM Treasury. (2023). HM Treasury Evaluation Strategy – Policy paper. <https://www.gov.uk/government/publications/hm-treasury-evaluation-strategy/hm-treasury-evaluation-strategy>

7.4. Case Study

The Spending Review 2021 was chosen as the case study for the UK due to several reasons. First, **The Spending Review 2021** is a multi-year review that can offer more insights and lessons than a limited one-year review could. This is why Spending rounds made in 2013, 2019 and 2020 were not selected. Second, it is the latest spending review effort made in the UK. Thus, it reflects the UK's most current priorities, policy shifts and economic considerations, making it a significant resource for understanding the current role and impact of spending reviews in the UK better. Our PwC Global Network also included an expert who was involved in the making of the Spending Review 2021, bringing invaluable practical knowledge to this study. Finally, the project Beneficiaries were particularly interested to learn more about the review's efficiency review component, that was launched as part of the Spending Review 2021.

In 2021, the UK Government published its first multi-year spending review since 2015, combined with the Budget under the title "Autumn Budget and Spending Review 2021: A stronger economy for the British people." The review outlines fiscal policy and spending priorities for the years 2022-2023 to 2024-2025, formally commencing on September 7th, 2021, and concluding on October 27th, 2021, upon presentation to the House of Lords.²⁵² Departments prepared for the review before the summer, aiming to establish resource and capital budgets alongside the Autumn Budget 2021 to ensure fiscal sustainability and support economic growth. The review aimed to set departmental Resource and Capital DEL budgets, covering around half of total government expenditure, and devolved administrations' block grants for the subsequent three financial years, adhering to principles of reducing public sector net debt and balancing the current budget over the medium term.²⁵³

The Spending Review 2021 followed the same organisational structure explained previously, in section 7.2.2. Additionally, an Evaluation Taskforce was appointed to work with government departments in important areas to ensure proposals were supported by strong evaluation plans. This involved incorporating evaluation into prominent programmes (i.e. Help to Grow and the Youth Investment Fund), aiming to strengthen the evidence base for future decision-making.²⁵⁴

General SR process

The process began with the Government setting a spending "envelope" months ahead of the review, indicating the total amount of money intended for the entire Spending Review period. The finished Review report then set out how this envelope was divided between government departments.²⁵⁵

In April 2021, as part of the Spending Review, the government launched an efficiency and savings review to assess departmental spending and leveraging potential

²⁵² Chancellor of the Exchequer. (2021). Spending review 2021 Launch Letter. <https://www.gov.uk/government/publications/spending-review-2021-launch-letter>

²⁵³ Chancellor of the Exchequer. (2021). Spending review 2021 Launch Letter. <https://www.gov.uk/government/publications/spending-review-2021-launch-letter>

²⁵⁴ HM Treasury. (2021). Spending review 2021, pp. 44. <https://www.gov.uk/government/publications/autumn-budget-and-spending-review-2021-documents>

²⁵⁵ Keep, M., Brien, P., Francis-Devine, B. & Harari, D. (2021). Background to the Autumn Budget and Spending Review 2021. House of Commons Library, pp. 11 <https://researchbriefings.files.parliament.uk/documents/CBP-9349/CBP-9349.pdf>

productivity gains from the COVID-19 response. The review set a specific target of achieving a **5% cumulative efficiency and savings by 2024-2025**.²⁵⁶ The Efficiency and Savings exercise was led by the CST. In exercise, HMT required departments to develop credible and actionable proposals for savings and efficiencies, aligned with Green Book principles. HMT encouraged departments to deliver improvements through two primary avenues²⁵⁷:

1

Departments were encouraged to pursue **productivity improvements**, aiming to achieve the same results with fewer resources. This approach sought to streamline operations and enhance efficiency across various government functions.

2

Departments were tasked with identifying opportunities for **reprioritisation and the cessation of lower-priority or lower-value activities**. By reallocating resources to higher-impact areas and discontinuing less essential endeavours, departments were encouraged to optimise their spending and maximise the value derived from their funding.

Following the submission of proposals, they underwent thorough review by various Government functions and were further scrutinised by the CST in the summer of 2021 to ensure their deliverability. Through collaborative efforts and consensus-building among departments, various Government Functions, and HMT, plans were refined and finalised before receiving final approval at the Spending Review.²⁵⁸

Internal preparation for the Spending Review began in the summer of 2021, with departments conducting detailed assessments of baseline spending and forecasting activity to predict changes over the review period. Departmental priorities were examined, involving agreement with Ministers on strategy, objectives and outcomes. Capital spending was also evaluated, including the production of business cases and workshops with Senior Officials to discuss potential spending. Additionally, a portal was launched for external stakeholders to submit written representations for the Spending Review and Autumn Budget, with submissions expected by September.²⁵⁹

Departments were also encouraged by HMT to **work jointly with other departments** during the SR process. This approach, guided by clear policy direction from the CST, aimed to ensure alignment with cross-cutting priority spending areas. HMT provided updated requirements and guidance for joint bids, ensuring uniform information and clear oversight plans across all departments. Capacity-building initiatives, such as tailored training sessions, enhanced departments' capability in preparing joint bids effectively.²⁶⁰

HMT spending teams employed gated approval processes like Major Project Review Groups (MPRG) or Treasury Approval Panels (TAPs) to assess departmental projects and programmes, ensuring they are appropriately designed to achieve desired outcomes. Additionally, HMT collaborated with the Cabinet Office to conduct performance stocktakes, jointly evaluating policy and financial performance. The scrutiny conducted by spending teams was supported by improved financial reporting and management

²⁵⁶ HM Treasury. (2021). Spending review 2021, pp. 45. <https://www.gov.uk/government/publications/autumn-budget-and-spending-review-2021-documents>

²⁵⁷ Knowledge sharing session with the UK, 8 March 2024.

²⁵⁸ HM Treasury & the Cabinet Office. (2021) Efficiency in Government. Twenty-Eighth Report of Session 2021-22 of Committee of Public Accounts, pp. 10-11. <https://committees.parliament.uk/publications/9041/documents/159162/default/>.

²⁵⁹ Interview with PwC UK expert, Philip Platts, 14.12.2023; HM Treasury. (2021). Chancellor launches vision for future public spending. <https://www.gov.uk/government/news/chancellor-launches-vision-for-future-public-spending>

²⁶⁰ Knowledge sharing session with the UK, 8 March 2024.

information, including Finance Board Packs, which were created by the Government Finance Function and administered by departmental finance teams.²⁶¹

The final stages of the SR process involved informal discussions between departments and HMT, leading to formal Ministerial negotiations on departmental settlements. Final settlements were provided by HMT, detailing departmental spending limits and any ringfences.²⁶² The Spending Review Report was published on the government's website in October 2021, alongside extensive supporting documentation aimed at increasing transparency and compliance with regulations (Statistics and Registration Service Act 2007 and the principles of the UK Statistics Authority's Code of Practice for Statistics).²⁶³ Moreover, the Parliament published its own supporting documentation to provide further context to the review, economic situation and public finances.²⁶⁴

Outcomes

The Spending Review 2021 outlined specific spending areas and targets to be achieved, encompassing fiscal objectives, the spending envelope, and priority outcomes across all sectors of central government. Measures identified during the review process were directly implemented into Budget decisions. Quantifiable metrics to assess progress were included in the Priority Outcomes and metrics document alongside the Spending Review 2021, building on the approach of the previous year by setting updated priority outcomes and metrics covering 2022-2025.

These priority outcomes and metrics formed the basis of Outcome Delivery Plans, ensuring that outcomes and evaluations from the review took precedence in departmental planning. ODPs, developed by the Prime Minister's Delivery Unit in collaboration with other government bodies, were published at the start of the financial year, with departments required to report on progress against them.²⁶⁵ While alternative options and measures were not suggested in the Review itself, **internal analysis of cost-effectiveness** and efficiency informed decisions, prioritising measures with the highest likelihood of success based on their contribution to delivering priority outcomes.²⁶⁶

Policy evaluation was embedded into the decision-making process of the SR 2021, with the Evaluation Taskforce collaborating with HMT spending teams to assess the evidence supporting departments' spending proposals and ensure they utilised counterfactual approaches to assess effectiveness. Over 80 proposals were reviewed, and evaluation

²⁶¹ HM Treasury & the Cabinet Office. (2021) Efficiency in Government. Twenty-Eighth Report of Session 2021-22 of Committee of Public Accounts, pp. 11-12.

<https://committees.parliament.uk/publications/9041/documents/159162/default/>

²⁶² Interview with PwC UK expert, Philip Platts, 14.12.2023.

²⁶³ E.g. correction slips, policy costings, impact analysis on households, data sources, Excel tables concerning the policy decisions and measures announced at Spring Budget 2021 were published. HM Treasury. (2021). Spending review 2021 documentation. <https://www.gov.uk/government/publications/autumn-budget-and-spending-review-2021-documents>

²⁶⁴ Keep, M., Brien, P., Francis-Devine, B. & Harari, D. (2021). Background to the Autumn Budget and Spending Review 2021. House of Commons Library, pp. 11. <https://researchbriefings.files.parliament.uk/documents/CBP-9349/CBP-9349.pdf>

²⁶⁵ HM Treasury & the Cabinet Office. (2021). Efficiency in Government. Twenty-Eighth Report of Session 2021-22 of Committee of Public Accounts. <https://committees.parliament.uk/publications/9041/documents/159162/default/>

²⁶⁶ HM Treasury. (2021). Spending review 2021. <https://www.gov.uk/government/publications/autumn-budget-and-spending-review-2021-documents>

conditions were established in departmental spending settlements to enhance programme evaluation quality.²⁶⁷

Additionally, the review identified measures to achieve fiscal sustainability and improve value for money, addressing areas such as Business and Industry, Brexit and Property taxes. Inefficiencies highlighted during the efficiency Review were confirmed, with savings of 5% against day-to-day departmental budgets in 2024-2025 being reinvested into priority areas.²⁶⁸

In general, the Spending Review 2021 can be summarised as follows:

Table 23. SMART analysis for the Spending Review 2021.

Specific	The Spending Review 2021 had a clear scope , focusing on setting departmental budgets for 2022-2025 to ensure fiscal sustainability and support economic growth. It included an efficiency review with the clear objective of targeting 5% cumulative savings by 2024-2025. The Review followed the standard governance model but also introduced an Evaluation Taskforce to collaborate on policy evaluation.
Measurable	The Spending Review 2021 did contain quantifiable metrics to assess the progress and impact of programmes and policies in achieving their objectives. These metrics were included in the Priority Outcomes and Metrics document published alongside the Spending Review 2021. Efficiency analyses were conducted to ensure optimal resource allocation, with identified inefficiencies addressed through targeted savings measures.
Achievable	The Spending Review resulted in setting government department budgets until 2025 . While no departments experienced cuts to their resources budgets, the Review successfully identified 5 % efficiency savings which were reinvested into priority areas.
Relevant	The alignment with government priorities was considered at each stage of the Review. The results of the Review were directly integrated into the departmental budget decisions, as the Review and the Budget were published as one document.
Time-bound	Conducted in summer and fall of 2021 and published in October 2021, the Spending Review 2021 adhered to a time-bound schedule.

7.5. Success Factors and Challenges



Strengths

- The UK's established spending review system offers a **structured framework for multi-year budget allocation**, facilitated by an established organisational structure **ensuring departmental involvement** and **close co-operation** between departments and the Treasury.
- The comprehensive nature of UK's spending reviews allows for a **thorough examination** of government spending across all departments.
- The **process promotes interdepartmental collaboration**, fostering alignment with overarching policy objectives. HMT has **actively encouraged joint bids and cross-cutting outcomes**.

²⁶⁷ Evaluation Task Force. (2023). Aim and mission. <https://www.gov.uk/government/organisations/evaluation-task-force/about>

²⁶⁸ HM Treasury. (2021). Spending review 2021. <https://www.gov.uk/government/publications/autumn-budget-and-spending-review-2021-documents>

- The UK also conducts **efficiency and savings reviews** alongside spending reviews to strategically assess service delivery throughout the public sector, looking for opportunities to make efficiency improvements and maximise value for money. These exercises include setting savings targets that **provide departments with a clear objective and empowers finance teams to address inefficient spending**.
- In the efficiency and savings reviews, focus is put on two types of efficiency: **allocative efficiency** (prioritising resources on activities with the best ratio of costs to the benefits achieved) and **technical efficiency** (carrying out activities faster, with fewer resources).
- The **absence of a strict SR legal framework allows for adaptability to changing economic and political circumstances**, enabling timely adjustments in budget priorities and a quick response to potential crisis situations.
- The spending review process **includes Outcome Delivery Plans that enable departments to align their activities with broader government priorities and ensure transparency and performance measurements**. This ensures the implementation of spending decisions made during the SR process.
- There is a commitment to continuous improvement, particularly from HM Treasury and Cabinet Office. **Lessons learned from previous reviews are used to refine and enhance future iterations**, leading to greater efficiency and effectiveness over time. Examples of recent improvements are the Government Efficiency Framework and Outcome Delivery Plan framework.²⁶⁹



Weaknesses

- The extensive flexibility in the current system allows the government to postpone or even skip spending reviews at their discretion, leading to **irregularities** in the intervals between reviews, with intended three-year gaps often shortened to two due to political factors, such as alignment with electoral cycles. This poses challenges for maintaining a consistent fiscal planning framework.
- There is currently a **lack of transparency regarding efficiency reviews**, and public communication on savings identification and delivery methods is limited. Unlike past practices, recent reviews are primarily internal documents, contrasting with well-documented reports like the Gershon Efficiency Review in 2004²⁷⁰ and even the efficiency exercise made in 2010.²⁷¹



Opportunities

- **Increasing public participation** in UK spending reviews can enhance transparency, accountability, and trust. While this may demand significant time and resources, the broader range of viewpoints would better align spending priorities with public needs and preferences, justifying the investment.
- **Leveraging more digital technologies** could streamline the review process, improving efficiency and accessibility of information.



Threats

- **Some spending reviews have been limited to single-year spending rounds, hindering transformative fiscal policy changes in the UK.** To address this issue, the Institution for

²⁶⁹ Knowledge sharing session with the UK, 8 March 2024.

²⁷⁰ Gershon, P. (2004). Releasing resources to the front line: Independent Review of Public Sector Efficiency. HM Treasury. https://www.civilservant.org.uk/library/2004_gershon_releasing_resources_to_the_front_line.pdf

²⁷¹ The results of the 2010 efficiency exercise were made available through presentation slides. See Green, P. (2010). Efficiency Review by Sir Philip Green. <https://assets.publishing.service.gov.uk/media/5a78f0be40f0b62b22cbe018/sirphilipgreenreview.pdf>

Government has proposed extending the duration of spending reviews, potentially covering the full parliamentary term of five years.²⁷²

- The effectiveness of a spending review **relies heavily on continuous engagement and involvement of political figures throughout its entire process**, from inception to completion.
- **Legacy technology issues and challenges in data integration** may pose significant obstacles to the effectiveness of the spending review process.

²⁷² Harris, J. & McCrae, J. (2014). "Preparing for the Next Spending Review – a briefing note. Institute for Government <https://www.instituteforgovernment.org.uk/sites/default/files/publications/Spending%20review%20briefing%20note%20final.pdf>

8. Best Practice Comparison with Estonia and Finland

Comparative table presents a synthesis of the key findings from the international best practice study. The table includes all the analysed countries combined from the as-is and best practice countries which includes Estonia, Finland, Denmark, Ireland, Latvia, The Netherlands and The United Kingdom. Key differences regarding governance model, topic selection, analysis, publication and implementation are displayed as well as general information about the countries spending review process.

Table 24. Best practice comparison by countries.

	Estonia	Finland	Denmark	Ireland	Latvia	The Netherlands	The United Kingdom
General							
Years of experience	8	10	39+	15	8	41+	26
Number of conducted spending reviews	4 selective spending reviews (2 pilots in 2018 and additional 2 started in 2020). Additional 4 are underway. Moreover, the State Budget Revision (incl. zero-based budgeting) initiative is ongoing	4 (3 SRs of descriptive nature in 2015-2019, and one comprehensive SR in 2023)	At least 50+ SRs in total, the number of reviews may vary per year, ranging from none in certain years to as many as 34 in other	Approximately 30 spending reviews per year, recent years the trend has been to produce less papers. 25 SRs were started in 2022 170+ in the years 2017-2023	Since 2018 an annual comprehensive review. 5 in total.	Since 2008 2-7 per year. Two comprehensive reviews with 16 and 20 annual spending reviews. 4 spending reviews were started in 2022 300+ since the first SRs	11 (8 multi-year, and 3 one-year SRs)
Frequency (annual, multiannual, etc)	Ad-hoc basis	Ad-hoc basis	Annual	Annual (3-year framework)	Annual	Annual	Multiannual
Objective (savings, efficiency, both, etc)	Savings and policy efficiency	Savings + managing the aggregate level of expenditure	Creating fiscal space	Both	Reprioritizing public spending and getting the	Creating policy options both savings and efficiency	Both + aligning expenditure to government priorities

	Estonia	Finland	Denmark	Ireland	Latvia	The Netherlands	The United Kingdom
					best value for money		
Direct regulation (legal acts)	Yes	No	No	No	Law on Budget and Financial Management	No	No
Central publicly available guidance materials	No	No	No	Briefing documents, scoping templates, report template	Terms of Reference	Terms of Reference	Guidance for assessing the economic, social and environmental impacts of proposals (The Green Book)
State budget coverage	For selective spending reviews the coverage is limited (>5%), mostly unknown. The State Budget Revision is comprehensive and covers 50-60%	Comprehensive. Extended coverage (typically 70-100%)	Targeted reviews have varying levels of coverage (<5% in 2022)	Targeted >5% for individual papers, yearly aim is third of expenditure with three-year cycles to cover 100% of the expenditure	Comprehensive 50-70%	5-20% for selective rounds, comprehensive aims for 100% (not achieved in reality)	Comprehensive reviews that have extended coverage (>50%)
Integrated with state budgeting process	No integration for selective spending reviews. State Budget Revision (zero-based budgeting) is integrated	Limited integration. The extent to which SRs are used in the budget process varies from review to review, is not predictable and not always direct.	Strong integration. SR recommendations are adapted and reflected in the upcoming budget	Limited integration	Strong integration	No integration anymore	Strong integration. SR results are reflected in the upcoming budget
Integration with policy evaluations	No integration	Limited integration. Some impact assessments and	No integration	Limited integration. SRs encompass most	No integration	Limited integration. Evaluations are a source of input for spending reviews, however they are	Limited integration. An Evaluation Taskforce was set up in 2020 to

	Estonia	Finland	Denmark	Ireland	Latvia	The Netherlands	The United Kingdom
		studies are utilised in the SR process.		policy evaluations		not in a common planning framework	ensure stronger evaluations that are then used as input for the spending review process
Governance model							
Coordinator	MoF	MoF	MoF	Department of Public Expenditure, NDP Delivery and Reform	MoF	MoF	HM Treasury
Role of line ministry	Active role in conducting analysis	Limited role. Mostly data sharing	Very active role in helping steer the SR process with MoF	Participate through the ISEEG network	LM's conduct analysis and are responsible for implementation	Participates in the Steering Committee, Working Group Provide data, information and expertise to the SR team. Implement saving measures.	Active role in conducting analysis and negotiating with HMT
Involvement of external parties (subject matter experts, consultancy firms, institutions)	External parties are involved depending of the spending review.	No involvement from external consultants. Written statements from research institutes	Strong involvement from external consultants in the project groups. Consultancy firms conduct the SR analysis	External consultants are involved when deemed necessary	No	External consultants are involved at the working group level when deemed necessary	Limited involvement: individuals, experts and think tanks are able to write written representations
Involvement of additional institutions	Additional involvement when necessary	Written statements from government agencies	No additional involvement	No	State Audit Office, Bank of Latvia and State Chancellery are involved in the	No additional involvement	The Office for Budget Responsibility provides economic and

	Estonia	Finland	Denmark	Ireland	Latvia	The Netherlands	The United Kingdom
					Inter-institutional working group level		fiscal forecasting for the SR
Topic selection							
Coordinator for topic selection	MoF	MoF	MoF	Department of DPER	MoF	MoF	HM Treasury
Decision-maker for topic selection	Government formally, MoF together with the line ministry	MoF	The Cabinet's Economic Coordination Committee	DPER	MoF	MoF	HM Treasury
Decision-maker for launching	Government formally, MoF in reality	MoF	MoF	MoF	Government	Government	Government (formally Chancellor of the Exchequer)
Analysis							
Used in Spending Reviews	Performance information, financial accounting data, policy evaluations	Financial accounting data, statistics, policy evaluation	Financial accounting data	Performance budgeting and public policy evaluations	Performance budgeting information and policy evaluations	Policy evaluations, performance indicators	Performance budgeting, performance audits and policy evaluations
Responsible for analysis	Working group (line ministries)	MoF	External consultants	Line departments	Line ministries	Line ministries	Line departments
Methodology	No requirements for the methodology	No requirements for the methodology	CBA, benchmarking methods	CBA, counterfactual, trend analysis, Value for Money Framework analysis, international benchmarking	CBA, counterfactual, trend analysis, international benchmarking	CBA, counterfactual, trend analysis, international benchmarking	CBA/Value for money analysis, trend analysis, benchmarking

	Estonia	Finland	Denmark	Ireland	Latvia	The Netherlands	The United Kingdom
Publication, decision, implementation							
Decision-maker	Government formally, not always given the opportunity	Government decides on implementation, MoF decides on publication	Cabinet committee	SR results support policy discussions	Government	Government and Parliament	Government
External publication	Decisions, high-level objectives, description of expenditure areas, ToR	Decisions, high-level objectives	Very limited publication. Analysis reports by external parties are occasionally made public	Decisions, High-level objectives of the review	Decisions, description of the expenditure areas examined, ToR	Decisions, ToR, guidance material, reporting on the implementation of decisions	Publications for SRs: Decisions, ToR, high-level objectives, description of the expenditure areas examined, reporting on implementation. Publications for efficiency reviews are rare
Responsible for implementation	Not regulated, line ministry and/or respective authority	Line ministry	Line ministry	Line department	Line ministry	Cabinet	Line department

Appendices

Appendix 1. Overview of Spending Review Process in Latvia ²⁷³

Stage	Objective	Key Steps	Responsibility
Stage 1: Establish the objectives and framework	To ensure success, this stage establishes the scope and objectives of spending reviews, the success criteria, and the political mandate to promote ownership and participation	<ol style="list-style-type: none"> 1. Establish overall objectives for the review 2. Select review areas 3. Identify key roles and responsibilities 4. Establish review targets 5. Set review timeline 6. The scope of spending review approved in the Cabinet of Ministers 	Ministry of Finance Line ministries Cabinet of Ministers Experts of working group
Stage 2: Identify policy options	To undertake the rigorous analytical work, which then informs the identification of saving options and the impact assessment	<ol style="list-style-type: none"> 1. Collect data 2. Undertake benchmarking and analysis 3. Assess the effectiveness and efficiency of existing spending 4. Prepare spending review report 5. Discuss the analysed issues in the Inter-institutional working group 	Ministry of Finance Line ministries Experts of working group
Stage 3: Decision-making	To determine which saving options or efficiency measures should be implemented. Make a decision in the Cabinet of Ministers	<ol style="list-style-type: none"> 1. Present findings and recommendations 2. Make decisions at minister level 	Ministry of Finance Cabinet of Ministers
Stage 4: Implementation	To ensure that decisions are implemented as anticipated	<ol style="list-style-type: none"> 1. Integrate into budget and medium-term frameworks 2. Enact legislation 3. Monitor implementation of decisions 	Line ministries Ministry of Finance

²⁷³ International Monetary Fund, How to Design and Institutionalize Spending Reviews, 2022, Source: Adapted from IMF (2019).

Appendix 2. Comparison of Spending Review Approaches in Latvia²⁷³

Approaches and features	Strategic review	Technical review	Medium-term review
Spending review function	Centralised, comparable departmental/programme review	Decentralised, single internal/external review of function/programme	Centralised review of a specific function within ministries, e.g., real estate, ICT solutions
Coverage	Efficiency and effectiveness	Efficiency	Efficiency and performance evaluation
Evaluation issues	Several issues - Operational/impact/ relevance to the current policy	One issue: operational issue	One issue: operational issue
The flow of the process	Bottom-up	Top-down	Top-down
Interventions	Efficiency gains and centralised priority settings	Efficiency gains and linear cuts	Medium-term gains and initial investments

Appendix 3. Latvia Financial Results of the Spending Review Results Adopted in 2023²⁷³



Results were adopted by the Cabinet of Ministers on 11 October 2022.

In fiscal terms efficiency gains of EUR 168,4 million for 2023 were achieved, which provided additional funds for reprioritising expenditures both within line ministries and for general government priorities:

- EUR 12,1 million were allocated for government priorities.
- EUR 156,3 million were identified as ministerial internal resources.

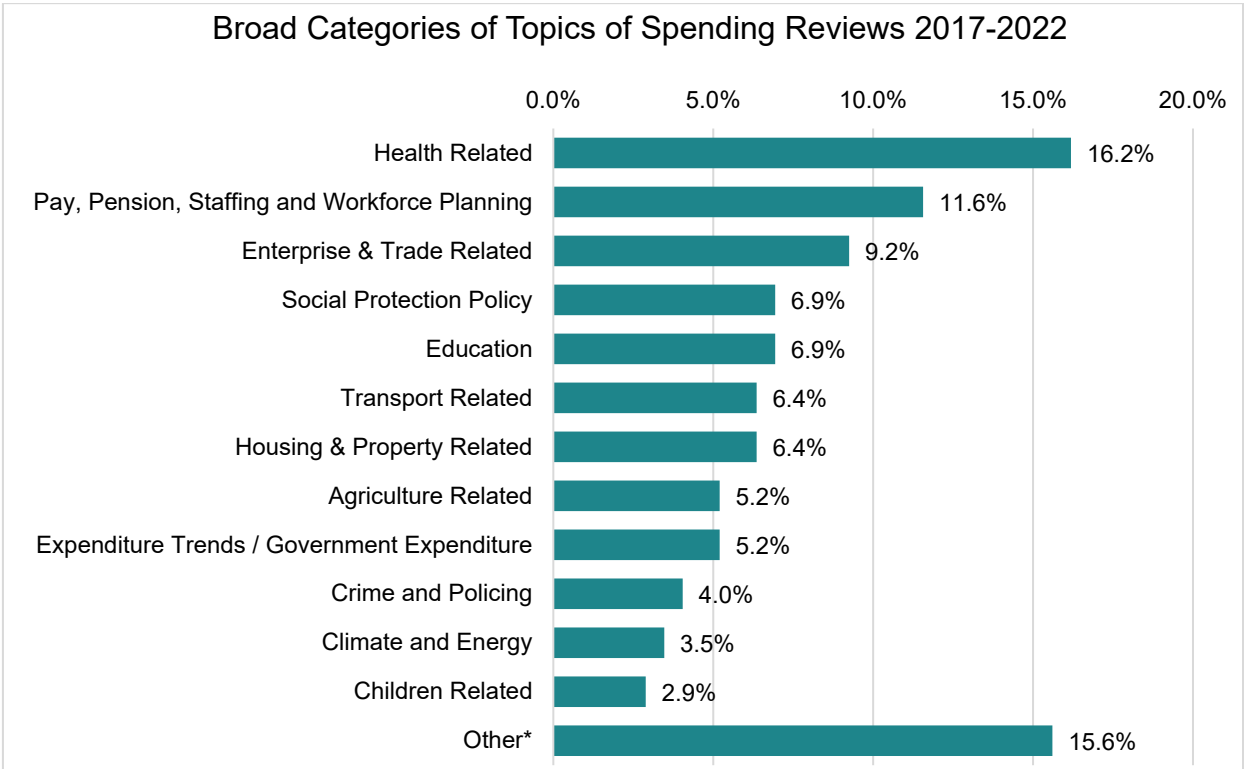
Method of the Spending Review	2023	2024
Horizontal measures for the resource allocation in favor of the current priorities	166 568 994	82 917 323
Review of base expenditures by line ministries Internally revised resources for internal redeployment in line ministries with implications for the coming years	154 928 979	76 847 283
Review of the funding allocated for priority measures Review of the allocated funding for priority measures from 2021 to 2023, assessing the relevance, results achieved and effectiveness of the priority measures	1 983 100	1 983 100
Surplus of the own revenues Review of the surplus of the own revenues from 2017. to 2022.	9 656 915	4 086 940
Medium-term spending review of State budget	1 842 402	1 842 402
Optimization of real estate (office premises) Analysis of costs related to rental and maintenance of real estate (office premises), summarized the planned work mode	1 842 402	1 842 402
TOTAL:	168 411 396	84 759 725

Appendix 4. Ireland's 2023 Spending Review Stages²⁷⁴

Month/Date	Description
Quarter 1 2023	
March	<ul style="list-style-type: none"> Steering Group discuss 2023 process Agree proposed changes for Spending Review 2023 Briefing session to take place March Key documents circulated to network (<i>e.g. scoping/ briefing document</i>)
Quarter 2 2023	
April	<ul style="list-style-type: none"> Scoping documents due 24 April Secretariat analysis of key themes and trends internally (<i>to inform Technical Review Groups formation as well as Steering Group</i>) Steering Group meeting(s) to take place (no more than 2) on scoping. Can invite authors, discuss wider themes
May	<ul style="list-style-type: none"> Spending Review Conference
June/July	<ul style="list-style-type: none"> Tranche 1 papers for review by: TRG's, Votes, Internal stakeholders <p>Steering Group mid-year meeting (on output, policy developments etc.)</p>
Quarter 3 2023	
August	<ul style="list-style-type: none"> First tranche of papers to be published (dates TBC)
Quarter 4 2023	
November	<ul style="list-style-type: none"> Second tranche of papers to be published (dates TBC)
December	<ul style="list-style-type: none"> Appraisal of Spending Review 2023 to be completed Final Steering Group meeting Preparations commenced for Spending Review 2024-2026

²⁷⁴ Department of DPER. (2023). Spending Review 2023 – Briefing for Votes and Departments

Appendix 5. Ireland’s Broad Categories of Topics of Spending Reviews 2017-2022²⁷⁵

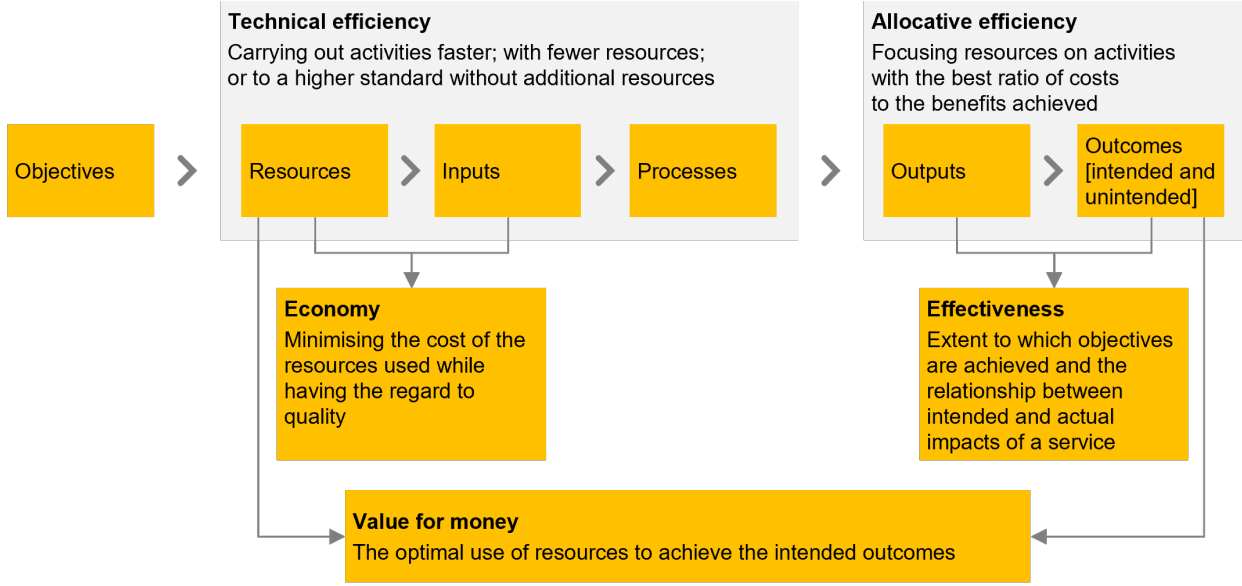


²⁷⁵ Department of DPER. (2023). SR high level document shared after knowledge sharing sessions.

Appendix 6. Comparison of UK's Spending Reviews and Efficiency Reviews

Approaches and features	Spending reviews	Efficiency reviews
Objective	Set out multi-year plans for public expenditure and departmental budgets	Identify saving options and opportunities for improvement across sectors
Focus	Alignment of expenditures with government priorities	Enhancing operational efficiency and achieving value for money
Frequency	Conducted every two to five years as part of the budget-setting process	No fixed schedule; can be conducted as part of spending reviews or independently
Scope	Typically covers Departmental Expenditure Limits (DEL) of all government departments	Scope will vary each time. An efficiency savings target is typically set by CX
Process	More established process that involves close collaboration between departments and HMT	Process approach can vary depending on the political and fiscal situation. It may involve all departments or be only an individual negotiation between HM Treasury and a specific department
Methods	Detailed baseline assessments, forecasts, examination of departmental priorities, value-for-money analysis, evaluation of capital spending, negotiations with the HMT	Analytical assessments of performance and value for money, benchmarking, business process redesign, negotiations with the HMT
Implementation / Monitoring results	Results are incorporated into the budgeting process through the Supply Estimates process. Monitored through the Outcome Delivery Plans Framework	Results are most often incorporated into the Spending review. Monitored through the Government Efficiency Framework
Publication	Typically published as official government reports	Rarely published. Mostly internal documents

Appendix 7. The UK's Types of Efficiency²⁷⁶



—————> = Contributes to the measurement of

²⁷⁶ HM Treasury. (2023). The Government Efficiency Framework. <https://www.gov.uk/government/publications/the-government-efficiency-framework/the-government-efficiency-framework>



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