

# **Value for Money Division**

## **Ministry of Finance**

### **Spending review in Slovakia**

**November 2018**

# I We have to do *more* with *less*

James Whiting (The Wire, Season 5)



# I Value for money - government initiative

- Spending review is part of broader initiative in the government manifesto
- Economic assessment of all public sector decisions (operations, investments, policies, regulations)
- Ex-ante by government agency and ex-post by an independent agency
- Emphasis on outcomes in public discussion (program budgeting)
- Benchmark against best at home and abroad - publicly, transparently and with reliable data
- Concept paper – Value for Money at the beginning

## Broader goals – mindset, institutions, data

### 1. Philosophical change

- Not only „comply with the law“ but look for "the best option"

### 2. Strengthen institutions

- „four eyes“ principle
- analytical capacities everywhere in public sector
- implementation unit
- Transform National audit office to performance auditor

### 3. Data and analytical tools

- CBA, CEA, CUA, CMA
- benchmarking

# I Slovak spending reviews go beyond savings

- **Comprehensive (and regular) review** of effectiveness and efficiency of expenditures, by sector (transport, health care, etc.) or by a common topic (IT, wages, etc.)
- **Review „most“ of the public expenditure** during the election term
- Proceed in rounds (3 sectors per year)
- **Allocative efficiency** - cut „bad“, promote „good“ expenditure within each sector
- Analysed by **internal capacities** – analytical units in ministries, MoF leads the process, methodology and analytical capacity
- **Specific attention on big (investment) decisions** - CBA by MoF for every major investment

## Watch out for

### Political ownership

- PM knows, MoF deals, line minister pays attention

### Line ministries

- sectoral knowledge represented by technical staff
- quality differs a lot
- we have analytical units (separate from budget dpt.)

### Technical skills

- Internal analysts – MoF and line ministries
- Ownership and continuity

### Ministry of Finance

- budget – SR is part of budgetary process

### Implementation

- delivery is more difficult and usually underestimated
- Implementation unit

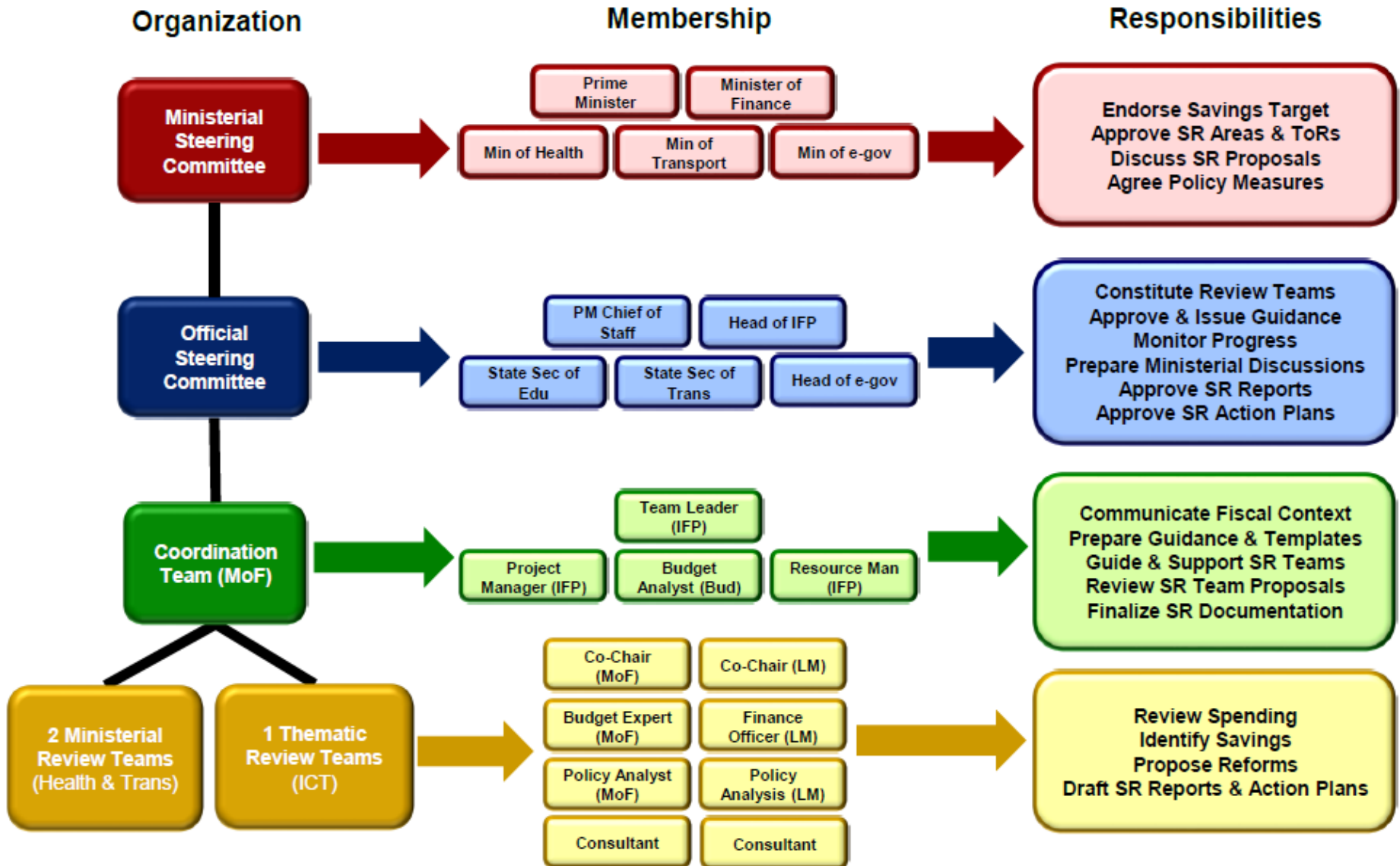
### Public pressure

- publish them all, talk about them
- our English webpage - [http://bit.ly/VfM\\_SlovakRep](http://bit.ly/VfM_SlovakRep)

# I Timetable – IMF indicative proposal

Time	2 months	4 months	2 months	4 months
Phase	<b>i. Preparation</b>	<b>ii. Review</b>	<b>iii. Decision</b>	<b>iv. Implementation</b>
Activity	<p><b>Macro-Fiscal Forecast</b></p> <p><b>Savings Target</b></p> <p><b>Agree Review Areas</b></p> <p><b>Organize Review Team</b></p> <p><b>Issue Guidance</b></p>	<p><b>Forecast Baseline</b></p> <p><b>Data Analysis</b></p> <p><b>Generate Options</b></p> <p><b>Estimate Savings</b></p> <p><b>Recommendations</b></p>	<p><b>Technical Meetings</b></p> <p><b>Ministerial Negotiation</b></p> <p><b>Cabinet Approval of</b></p> <ul style="list-style-type: none"> <li>Savings Measures</li> <li>New Spending</li> </ul> <p><b>Budgetization</b></p>	<p><b>Publish Budget Proposal</b></p> <p><b>Delivery Planning</b></p> <p><b>Enact Legislation</b></p> <p><b>Approve Budget</b></p> <p><b>Approve Action Plans</b></p>
Output	<p><b>SR Launch Document*</b></p> <ul style="list-style-type: none"> <li>Macro-fiscal context</li> <li>Savings target</li> <li>ToRs for reviews</li> </ul> <p><b>Deadline:</b> April 2016 (in Stability Programme)</p>	<p><b>SR Draft Reports</b></p> <ul style="list-style-type: none"> <li>Findings</li> <li>Recommendations</li> <li>Savings/Costs</li> </ul> <p><b>Deadline:</b> July 2016 (in Budget Requests)</p>	<p><b>SR Final Reports*</b></p> <ul style="list-style-type: none"> <li>Analysis</li> <li>Reform measures</li> <li>Savings/costs</li> <li>Performance targets</li> </ul> <p><b>Deadline:</b> Sept 2016 (in Budget Document)</p>	<p><b>SR Action Plan</b></p> <ul style="list-style-type: none"> <li>Legal changes</li> <li>Administrative changes</li> <li>Workforce implications</li> <li>Timetable</li> </ul> <p><b>Deadline:</b> Dec 2016</p>

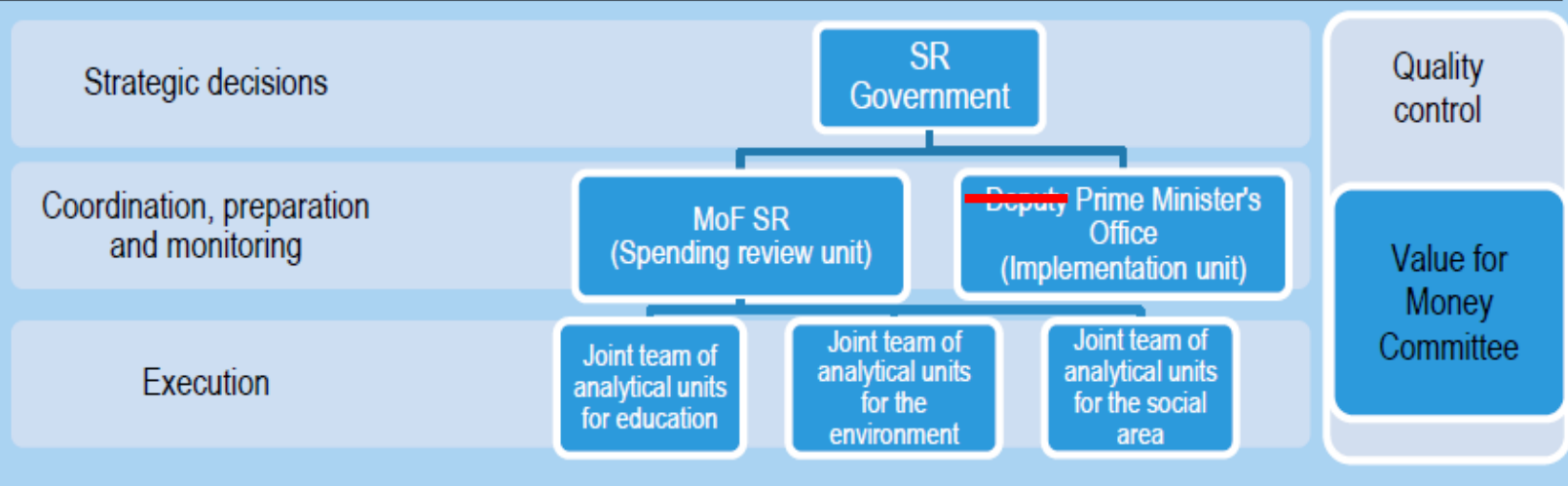
# I Governance of the spending review (IMF)





## Institutional setup - Slovak case

FIGURE 42 – Expenditure review organisation



Source: MoF SR

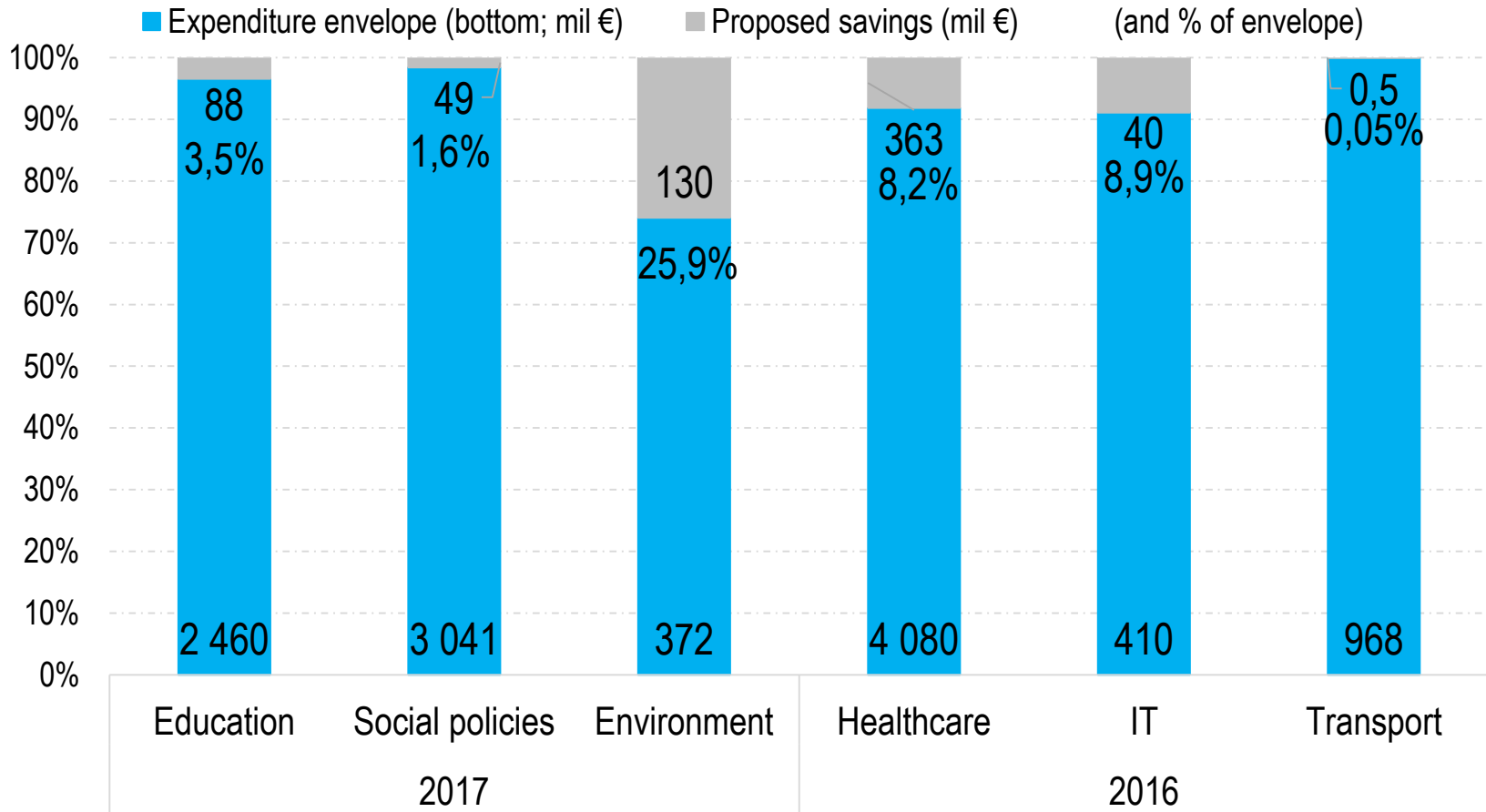
- we have less formal structure, process driven by MoF
- government makes strategic decisions, the rest is on us
- consensual outputs – agreements between MoF and line min.
- 20 analysts at the MoF, more at the line ministries

# I What makes it a success

	2016			2017		
	Health care	Transport	IT	Labor and social	Education	Environment
Relevant savings	✓	x	✓	x	x	✓
mil. eur (% of total expenditure)	363 (8,3 %)	0,5 (0,02 %)	22-40 (5 – 9 %)	49 (1,6 %)	88 (2,9 %)	130 (25,9 %)
Implemented in the budget	✓	x	x	x	x	✓
Significant increase in value	-	x	-	-	-	✓
Cooperation on the review	✓	x	✓	✓	x	✓
Transparency	✓	✓	✓	✓	✓	✓

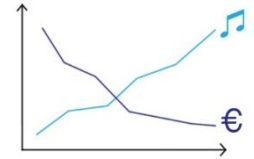
KPIs go beyond proposed savings measures – value, data, accountability, transparency

# I Six reviewed sectors



- On average, the proposed savings are **8 % of the budget**

# I On the way there



- + media attention**  
(VfM in press, facebook)
- + public debate**  
(limited budget, effectiveness)
- + mindset**  
(amendable mortality - health)
- + public sector as place for your career**

- still old school politics**  
(prioritization of investments)
- lobby is strong**  
(e.g. pharma companies)
- resistance to change**  
(negotiations with line ministries)
- reading comprehension**



Night of Chances Edinburgh



# | Spending reviews in the budget

Spending review measures are part of the **(1) budget negotiation** (technical and political)

Spending review reports are part of **(2) budgetary documentation**, approved by the government

(Some) measures are incorporated into **(3) the state budget** (health and environment are the poster-child)

**(4) Outcome indicators** for each sector (e.g. amenable mortality in health, PISA in education etc.)

**(5) Implementation Report** is part of budgetary documentation (overseen by Implementation Unit)

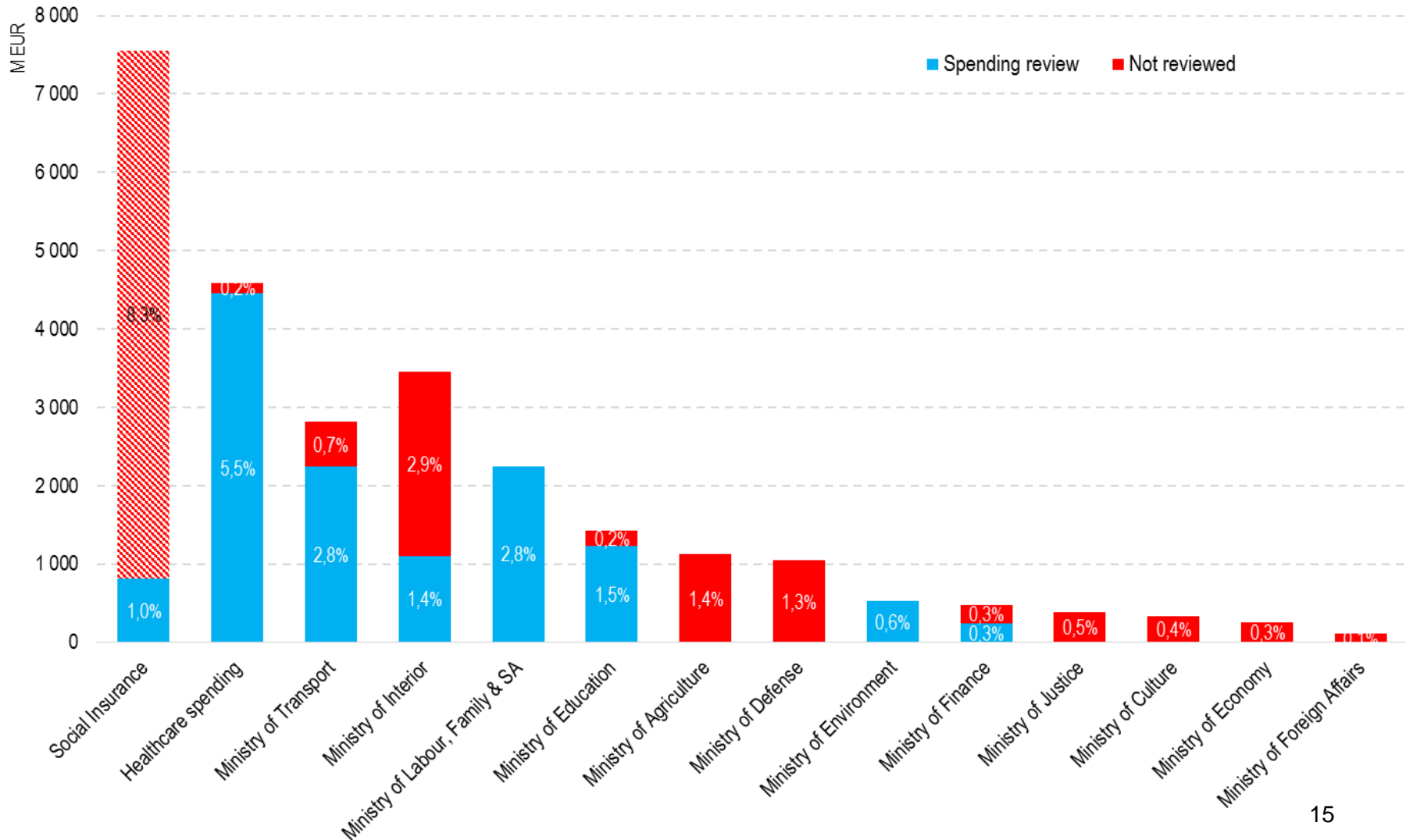
# I Health care measures in the budget

Million eur	2017	2018	2019	2020	Potential saving
<b>Measures reducing costs of public health insurance (summary)</b>	<b>143</b>	<b>159</b>	<b>165</b>	<b>193</b>	<b>268</b>
Overprescription of medications – introduction of prescription limits for outpatient service providers	20	20	20	20	59
Exceptions for medications – introduction of rules on refund of exceptions	10	10	10	10	10
Cost inefficient medications – central procurement of medications covered by health insurance	25	25	25	25	42
Special medical material – price reduction through reference pricing	35	45	45	55	55
Medical devices – reference pricing and inspection activities	15	15	15	15	15
Diagnostic exams – reduction of unit prices and limits to CT and MRI examinations	10	16	22	28	25
Diagnostic exams– introduction of limits for outpatient service providers	3	3	3	15	37
Improvement of inspection activities of VŠZP	25	25	25	25	25
<b>Measures reducing hospital costs (subordinate organisations of MoH)</b>	<b>31</b>	<b>31</b>	<b>31</b>	<b>31</b>	<b>95</b>
Operational expenses optimisation	5	5	5	5	10
Medical processes optimisation	15	15	15	15	74
Medication and special medical material procurement optimisation	8	8	8	8	8
Medical equipment procurement	3	3	3	3	3

Source: MoF SR

# Two more rounds to cover the rest

Public spending, covered by spending review (2017)  
Labels show spending as % of GDP

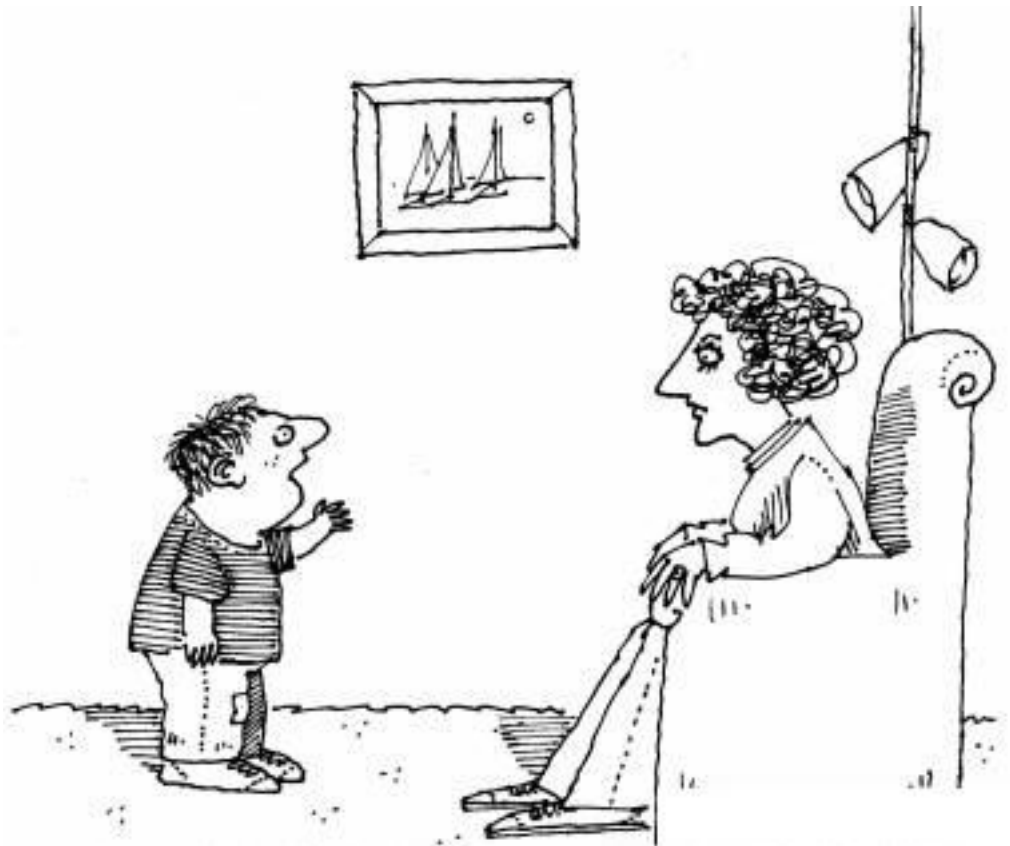


# I Lessons learnt

- **Political ownership**
  - Crucial for the exercise. It is never good enough
- **Internal analysts are value for money**
  - Rather than outsourcing the analysis, results are much better when an in-house analytical (and implementation) unit exists
  - Sectoral analysts are good cops, MoF are bad cops
- **Ambitious goals, optimistic reality**
- **Budget is key tool for MoF**
  - Use budgetary process as much as you can (spending limits, measures, performance goals, annex the spending review reports
  - Ideally with clear spending baseline projections
- **Implementation** is typical weakness
  - And key to translate ideas into better services for citizens
  - Broader engagement is necessary
  - Set the implementation unit – in the center of government and elsewhere



# I Of course I know the value of a dollar ...



"OF COURSE I KNOW THE VALUE OF A DOLLAR...  
THAT'S WHY I ASKED FOR TEN OF THEM."



**Štefan Kišš**

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