

Spending Review Management: Consolidated Slidepack

Richard Hughes
Public Financial Management Division

Slovakia: Spending Review Management
Bratislava, 1-5 February 2016





Contents of Slidepack

Subject	Slides
I. Spending Review Organization	3-18
II. Spending Review Timetable, Outputs, & Guidance	19-28
III. Spending Review Methodologies: Health & Transport	29-51
IV. Integrating Spending Reviews into Budgets	52-65
V. Conclusions & Recommendations	66-76

Spending Review Organization

Richard Hughes

Public Financial Management Division

Slovakia: Spending Review Management

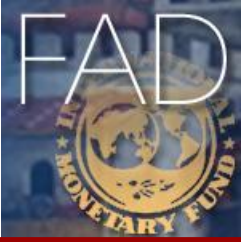
Bratislava, 1-5 February 2016





Outline of the Presentation

- I. Roles and Responsibilities**
- II. Organization**
- III. Use of External Consultants**



I. Roles and Responsibilities

a. Ministry of Finance (1)

- **Define review parameters**
 - **Scope:** How much spending to cover (Comprehensive vs. rolling, central government vs. general government vs. public sector)?
 - **Timeframe:** Over what time period (1 year, 3 years, 5 years)?
 - **Envelope:** How much money available (overall envelope, ministerial envelopes)?
 - **Ambition:** How much savings required and can we keep them? (3%, 5%, 10%)?



I. Roles and Responsibilities

a. Ministry of Finance (2)

- **Establish review methodology**
 - **Baseline:** Against what baseline should savings be compared (flat nominal, flat real, including baseline pressures, including new policy)?
 - **Savings:** How to account for savings (cashable vs. non-cashable, transverse vs. specific savings, spend-to-saves)?
 - **Budgeting:** How to incorporate savings in budgets?



I. Roles and Responsibilities

a. Ministry of Finance (3)

- **Police the process**
 - **Methodology:** Ensure guidance is followed
 - **Timetable:** Ensure deadlines are met
 - **Savings:** Ensure savings are credible and deliverable
 - **Discipline:** Prevent gaming (contingency measures)
 - **Decisions:** Ensure decisions are taken



I. Roles and Responsibilities

b. Line Ministries (1)

- **Identify savings opportunities**
 - **Scope:** Areas identified for review should account for at least 20 percent of budget
 - **Ambition:** Review areas should have the potential to deliver significant cashable savings (at least 10/20/30%)
 - **Realism:** Savings should be both politically and administratively deliverable



I. Roles and Responsibilities

b. Line Ministries (2)

- **Conduct reviews of areas identified**
 - **Data:** Gathering of benchmarking data
 - **Evaluation:** Analysis of efficiency and effectiveness of services
 - **Option generation:** Exploration of alternative approaches
 - **Estimation:** Calculation of costs and savings of difference options
 - **Conclusion:** Making recommendations



I. Roles and Responsibilities

b. Implementation (3)

- **Implementation**

- **Planning:** Identify actions required to implement reforms
- **Legislation:** Draft and enact legal reforms
- **Administration:** Implement organizational and procedural changes
- **Monitoring:** Report on realization of savings



I. Roles and Responsibilities

c. Prime Minister

- **Support MoF in drive for savings**
- **Provide political sanity check**
- **Ensure important decisions get made (especially inter-ministerial)**
- **Break deadlocks between MoF and LMs**
- **Conduct reviews of areas identified**



I. Roles and Responsibilities

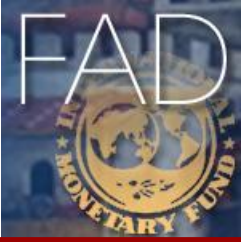
d. Outside Government

Independent Experts

- **Challenge existing ways of working**
- **Suggest alternative approaches**

Parliament

- **Scrutinize results**
- **Approve legal reforms**
- **Approve budgetary implications**



II. Organization

a. Within Ministry of Finance

- **Spending Review Team**
 - Budget experts
 - Project managers
- **Budget Department**
 - Central coordination team
 - Spending Teams
 - Pay team
 - Local government team
- **Analytical/Consulting Resource**



II. Organization

b. Within Line Ministry

- **Finance Department**
- **Strategy Unit**
- **Personnel Department**
- **IT Department**



II. Organization

c. Within Cabinet

- **Prime Minister**
- **Minister of Finance (Budget Minister)**
- **Minister of Local Government**



III. External Consultants

a. What Consultants can Bring

- **Benchmarking the cost of common activities** across line ministries such as procurement, human resources, estate management, finance and transactional services;
- **Bringing experience of different organizational arrangements** into the public sector and identifying opportunities for transformation of the manner in which government services are delivered;
- **Challenging political and organizational “sacred cows”** that would otherwise constrain the realm of the possible actions in the search for efficiencies;
- **Supporting the re-engineering of business process**, in particular those involving the rollout of new information technologies; and
- **Having the time to devote to all of the above.**



III. External Consultants

b. Risks with Consultants

- **lack political awareness** which can lead to fruitless exploration of policy or organization changes that politicians will ultimately not be prepared to contemplate;
- **lack the legitimacy in the eyes of officials** to make recommendations in their areas of, often extensive, policy or operational experience;
- **are unfamiliar with public sector budgeting and accounting** which leads them to either (i) lose valuable time learning the various principles, rules, and regulations or (ii) make recommendations that don't actually save public money;
- **lack a sense of financial perspective about the size of government** - i.e. most people who work in the private sector think that €10m is a lot of money; and
- **have a love financial wizardry** such as spend to save packages, securitizations, matching schemes, and incentive packages which often cost the public purse almost as much or more than they save.



III. External Consultants

c. Getting the Most out of Consultants

- **Make sure that consultants have a clear mandate from the top** before they set foot in line ministries.
- **Ensure that external consultants work closely with Ministry of Finance officials.** This saves time training external consultants in public sector budgeting and accounting methods while increasing the likelihood that their recommendations will have an impact on budget decisions.
- **Set external consultants a clear target for the quantum of savings you want them to identify.** This target should be linked to the reduction in cash expenditure the government needs to achieve to deliver its deficit reduction plans.
- **Give external consultants a clear sense of the time profile of the savings required.** For most countries substantial savings need to be identified immediately which limits the scope for the kind of spend-to-save or long-term “transformational” reforms that consultants are prone to recommend.
- **Focus at least some consultants on cross-cutting areas.** Looking across organizational or policy areas allows for benchmarking of common activities. These cross-cutting areas are also likely to be where the biggest missed opportunities for making savings are likely to lie.

Spending Review Timetable, Outputs, and Guidance

Richard Hughes

Public Financial Management Division

Workshop on Public Expenditure Reviews

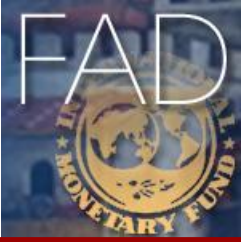
Bratislava, 2 November 2015





Outline of the Presentation

- I. Overall Timetable**
- II. Key Stages of the Review**
 - a. Preparation Phase
 - b. Review Phase
 - c. Decision Phase
 - d. Implementation Phase
- III. External Communications**
- IV. Spending Review Guidance**



II. Timetable for the Review:

Phases of a Typical Expenditure Review Process

Y = First Full Year of Implementation

Jan 2016 March 2016 July 2016 Sept 2016 Jan Y

2 months	5 months	2 months	4 months
a. Preparation Phase	b. Review Phase	c. Decision Phase	d. Implementation Phase
<p>Macro-Fiscal Forecast</p> <p>Savings Target</p> <p>Organization</p> <p>Guidance</p> <p>Agree Review Areas</p>	<p>Benchmarking</p> <p>Generate Options</p> <p>Forecast Baseline</p> <p>Estimate Savings</p> <p>Recommendations</p>	<p>Technical Meetings</p> <p>Ministerial Negotiation</p> <p>Cabinet Approval of</p> <ul style="list-style-type: none"> • Savings Measures • New Spending <p>Budgetization</p>	<p>Report to Parliament</p> <p>Publish Budget</p> <p>Delivery Planning</p> <p>Approve Budget</p> <p>Enact Legislation</p>





II. Timetable for the Review:

a. Preparation Phase: Key Activities

1. Top-Down Macro-Fiscal Forecast

- a. Update of Macroeconomic Forecast
- b. Set Medium-term Fiscal Objective
- c. 2 Revenue Projections: Central & Pessimistic
- d. Spending Projection: Macro Parameters + Baseline Pressures

2. Calculate Savings Target

- a. $\text{Pessimistic Revenue} + \text{Fiscal Objective} - \text{Spending Projection} = \text{Savings Target}$
- b. $\text{Luck} + \text{Revenue Measures} = \text{New Spending Policies (by assumption)}$

3. Organize Spending Review Teams

- a. Establish Cabinet Committee
- b. Set up Central Coordination Team in MoF & Ministerial & Thematic Review Teams
- c. Contract external consultants

4. Issue Spending Review Guidance

- a. Governance & Timetable
- b. Scale of savings required & calculation of savings
- c. Criteria for selection of review areas
- d. Format & content of spending review submissions

5. Identify Review Areas

- a. Significant share of ministry budget (at least 30%)
- b. Scope for realizing significant savings (At least 10% per year)
- c. Proposed by Line Ministry & Confirmed by MoF



II. Timetable for the Review:

b. Review Phase: Key Activities

- 1. Gather Benchmarking Data**
 - a. Production Function: Spending-Input-Outputs-Outcomes
 - b. Unit Costs: International / Inter-ministerial / Intra-ministerial
- 2. Generate Savings Options**
 - a. Reduce Activity
 - b. Improve Efficiency
 - c. Improve Cost Recovery
 - d. Contingency Measures
- 3. Forecast Baseline Pressures**
 - a. Macroeconomic Parameters
 - b. Other Baseline Pressures (Demographic, Demand, Announced Policy)
- 4. Estimate Savings**
 - a. Measured Against NPC Baseline
 - b. Net of Up-Front Implementation Costs
 - c. Cashable vs. Non-cashable
- 5. Recommend Savings Measures**
 - a. Description of Measure
 - b. Medium-term Yield
 - c. Legislation Requirements



II. Timetable for the Review:

c. Negotiation Phase: Key Activities

- 1. Technical Review of Review Team Submission**
 - a. Ensure consistent methodology
 - b. Verify credibility of savings proposals
 - c. Identify outstanding differences for Ministerial discussion
 - d. Deploy contingency measures (if necessary)

- 2. Ministerial Negotiations**
 - a. Initial rounds with Budget Minister
 - b. “Peer Pressure” committees: PSX (UK), Razor Gang (Aus)
 - c. Final Appeal to MoF and finally PM

- 3. Cabinet Decision**
 - a. Agree savings measures
 - b. Agree new spending measures

- 4. Budgetization**
 - a. Profile of savings and new policies
 - b. Multi-year spending limits
 - c. Supplementary controls
 - d. Implications for local government



II. Timetable for the Review:

d. Implementation Phase: Key Activities

1. **Report to Parliament**
 - a. Fiscal context & savings required
 - b. New policy measures
 - c. Savings measures
 - d. Legislative requirements
2. **Submit Budget**
 - a. Multi-year expenditure limits by ministry
 - b. List and yield of major policy measures (by assumption)
3. **Delivery Planning**
 - a. Administrative reforms
 - b. Workforce strategy
4. **Budget Approval**
 - a. Approval/rejection of savings measures
 - b. Cancellation of new spending measures (if necessary)
 - c. Deployment of contingency measures (if necessary)
5. **Enact Enabling Legislation**
 - a. Budget Law
 - b. Other Legal Amendments

III. External Communications

- **Launch of the Review (March)**
 - Fiscal Context
 - Savings Ambition
 - Review Areas and ToRs
 - Review Timetable

- **Mid-Point (July)**
 - Benchmarking study (to inform debate)
 - Quick wins (to demonstrate resolve)

- **Conclusion (September)**
 - Findings and recommendations of reviews
 - List of new spending measures
 - List of savings measures
 - Implications for ministry budgets



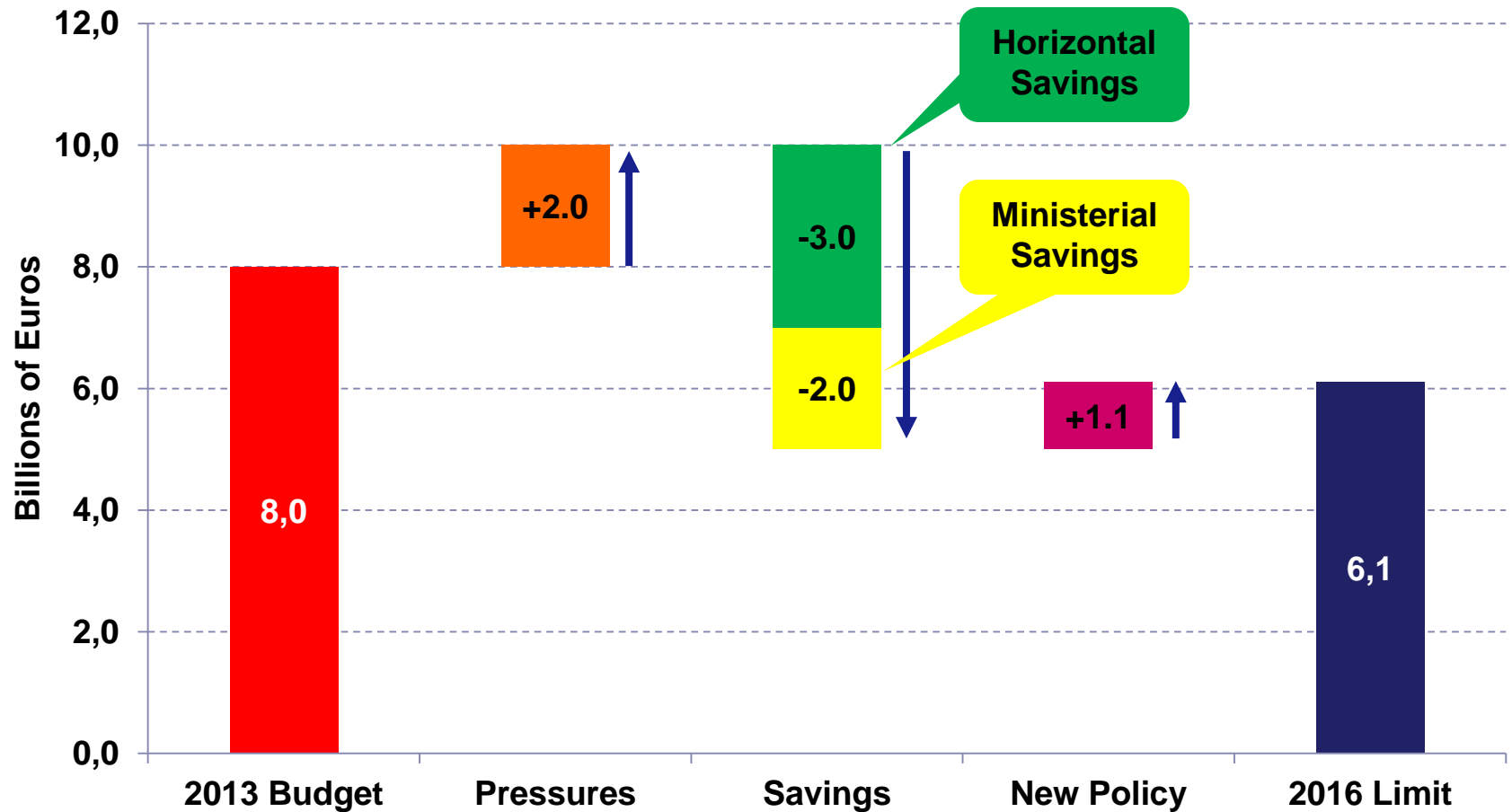
IV. Spending Review Guidance: Outline

- **Governance**
 - Cabinet Committees
 - Role of MoF
 - Role of LMs
 - Organization of Review Teams
- **Timetable**
- **Key Parameters**
 - Macroeconomic Assumptions
 - Level of savings required
- **Identification of Review Areas**
 - Share of budget
 - Scope for realizing significant cashable savings for whole government
- **Content of Spending Review Submissions**
 - Summary budget table
 - List of savings measures with yield
 - List of spending measures with cost
 - Pay and workforce implications
 - Local government implications

IV. Spending Review Guidance

Capturing Budgetary Implications

Submission for Ministry X



Spending Review Methodologies: Health and Transport

Richard Hughes

Public Financial Management Division

Slovakia: Spending Review Management

Bratislava, 1-5 February 2016



Spending Review Case Study: National Health Service

Richard Hughes
Public Financial Management Division

Slovakia: Spending Review Management
Bratislava, 1-5 February 2016





Different ministries require different approaches: Productive vs. Allocative Efficiency

DEPARTMENT X		Projects			
		Proj 1	Proj 2	Proj 3	Proj 4
Processes	Human Resources				
	Procurement				
	Transactions				
	Corporate Services				
	Fees & Charges				
	Asset Management				



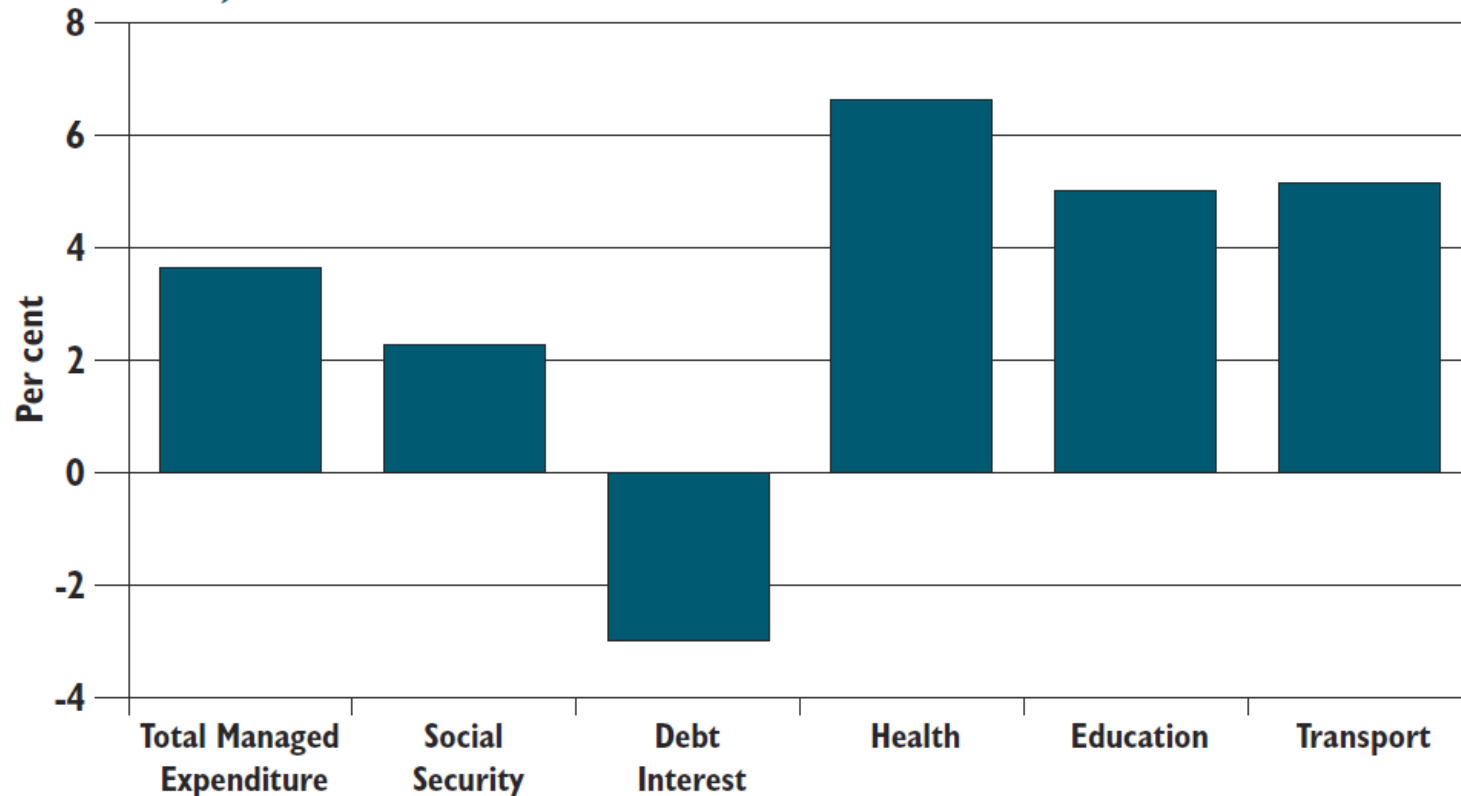
**Productive
Efficiency
(Health)**



Allocative Efficiency (Transport)

NHS was the winner of successive budgets during a decade of Labour Governments

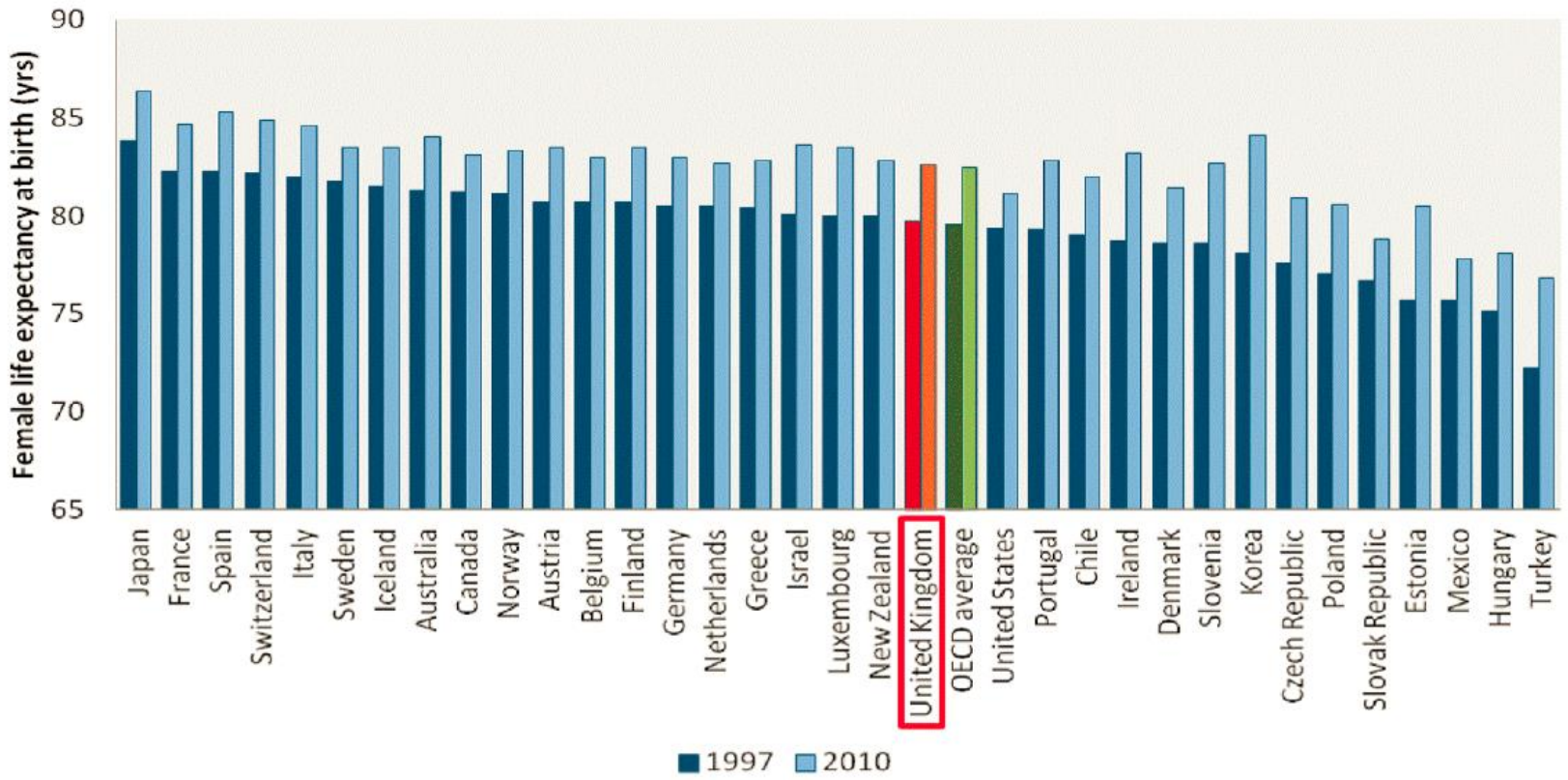
Chart 2.6: Real average annual growth rates by spending area, 1997-98 to 2007-08



Source: HM Treasury.

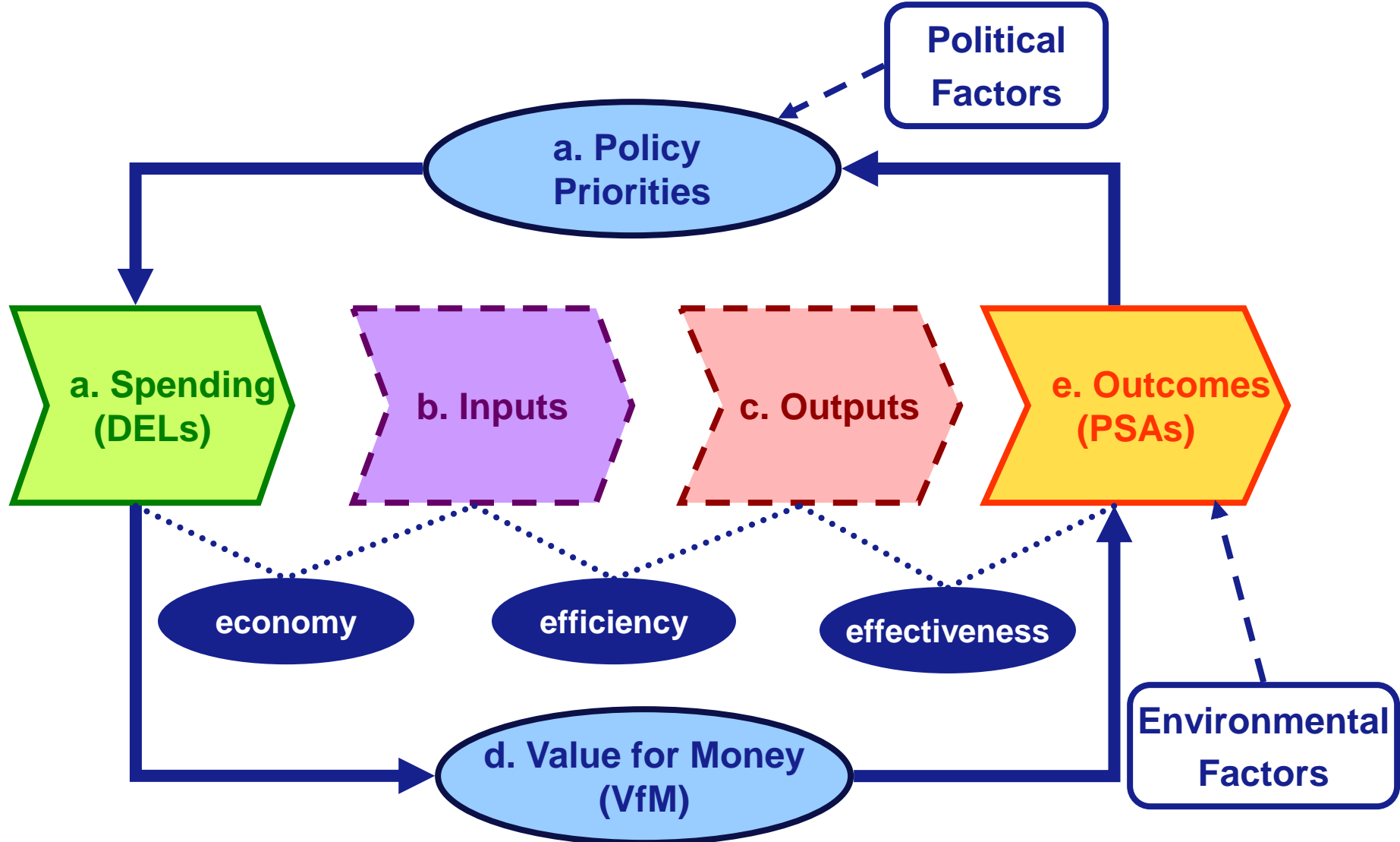
But improvement in health outcomes didn't match the increase in resources

Figure 5. The UK's position on international league tables for women's life expectancy remained disappointing

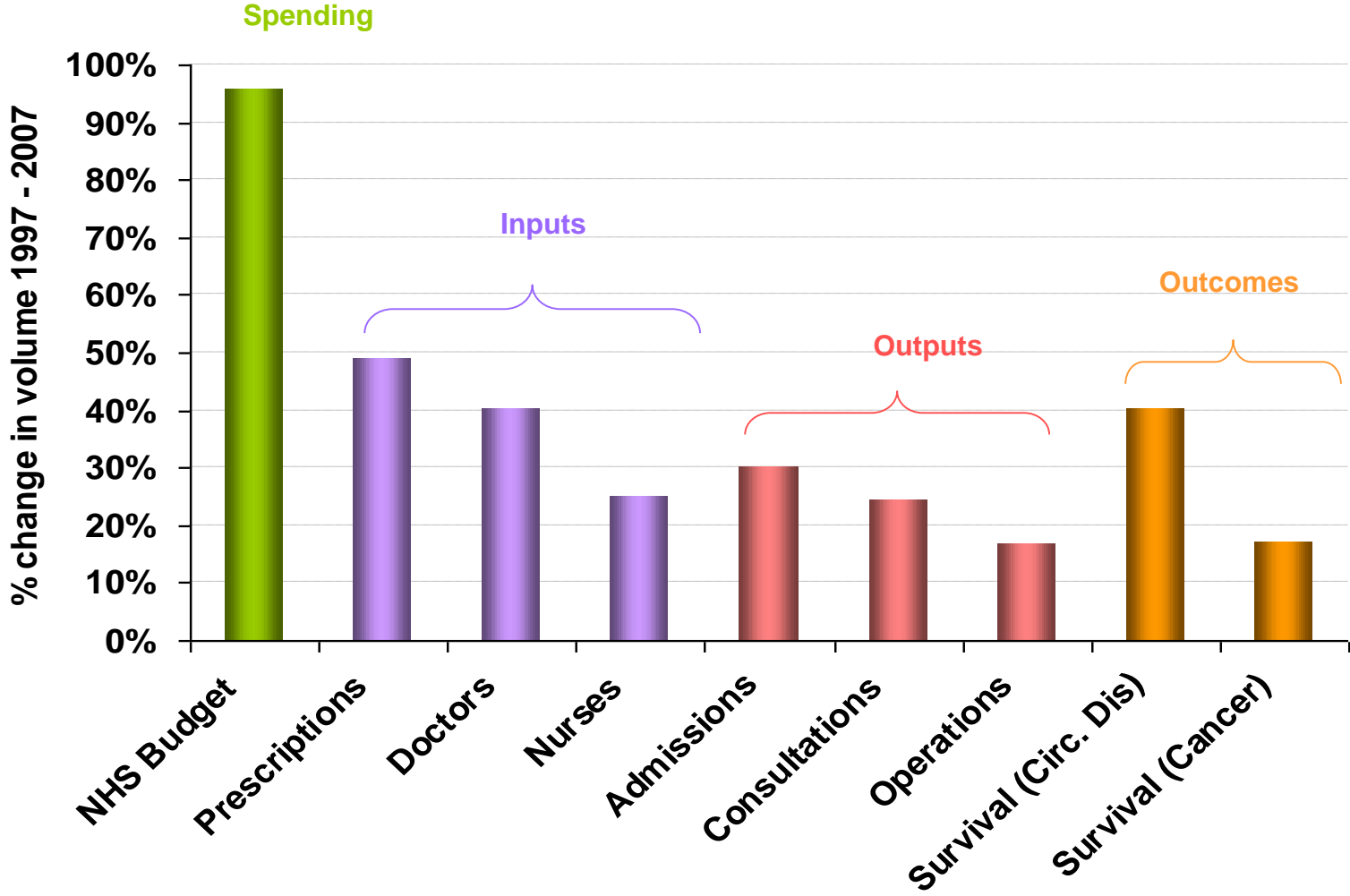


Source: OECD 2012. Notes: OECD average includes UK. All figures are for 2010 except for Italy (2009) and Canada (2008)

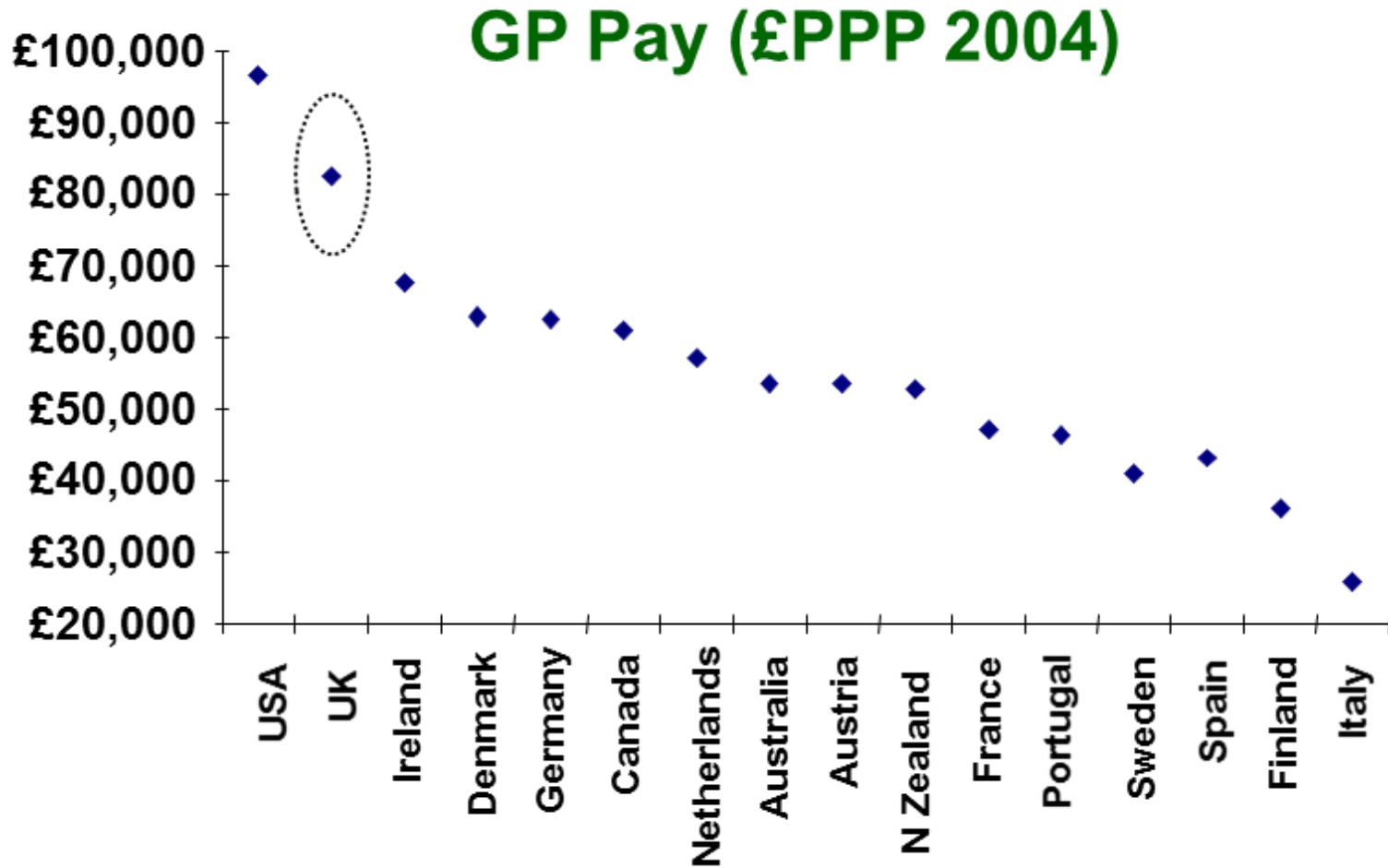
Health review focus on the efficiency and productivity of NHS value chain



Health review found that biggest mismatch was in turning spending into inputs

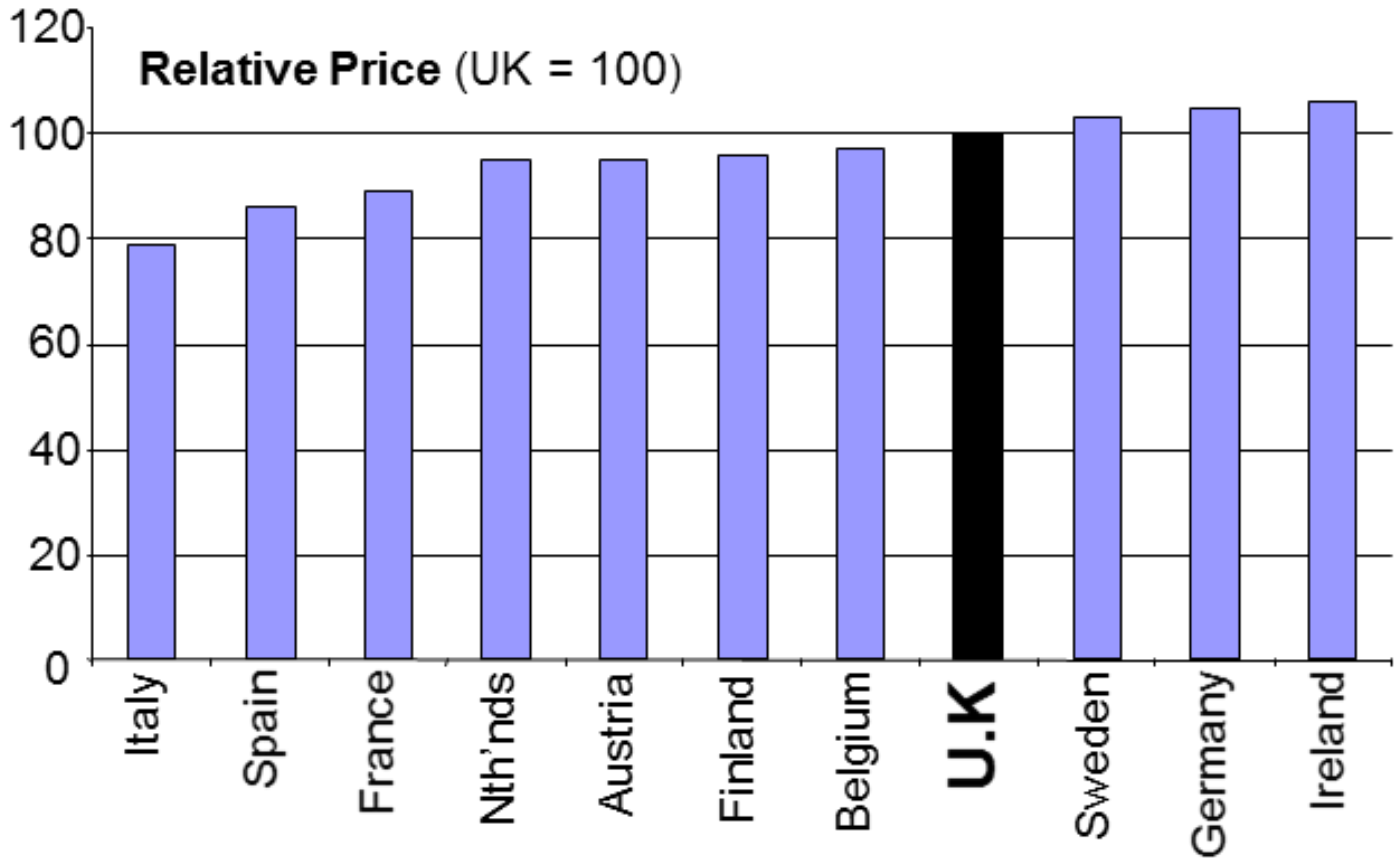


Some simple benchmarking confirmed that we now had the highest paid GPs in Europe



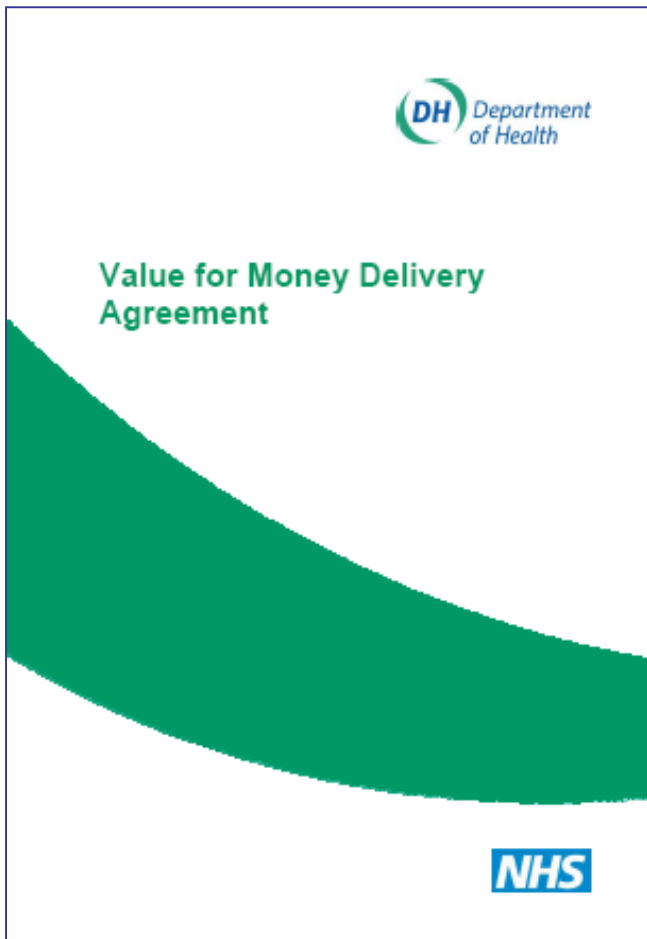
And were paying too much for drugs given NHS's near monopsony position

Branded Drug Prices: UK vs EU



Review recommendations focused on renegotiating GP contracts and drug tariffs

NHS Efficiency Plan



“Brown to tackle £100,000 a year GPs over pay & hours”

Daily Mail 14/5/07

“NHS price plans surprise drug companies”

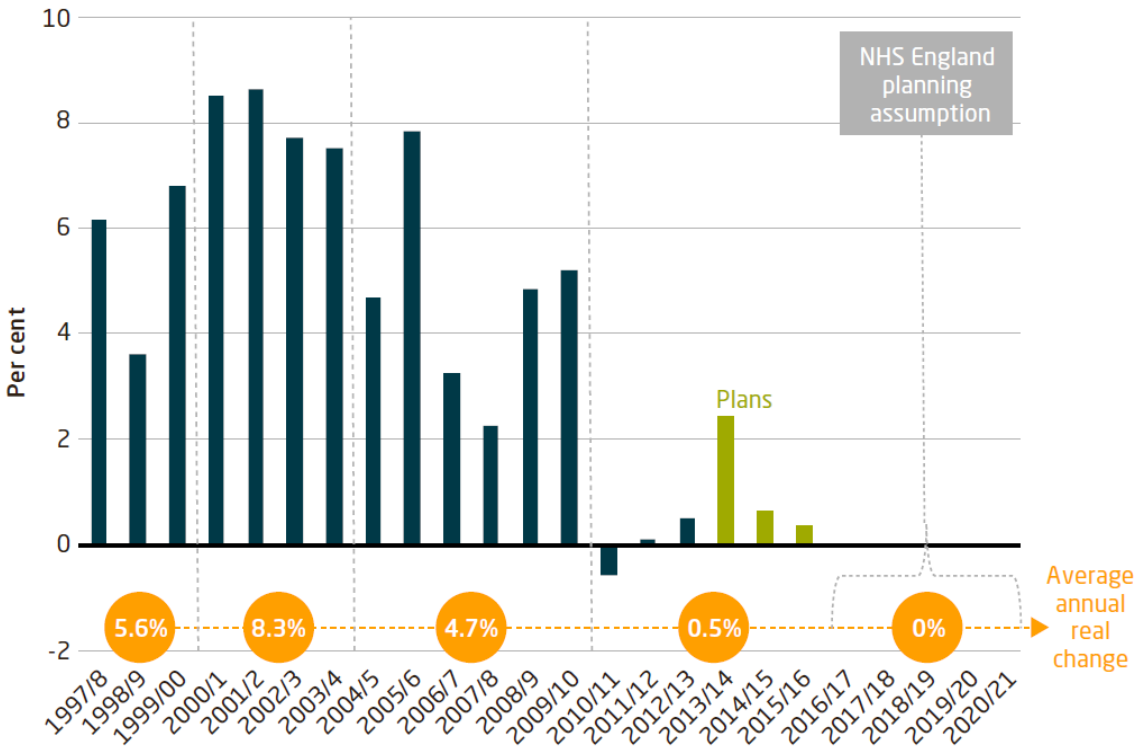
Financial Times 2/8/07

“NHS push for 10% drug price cut”

Financial Times 7/1/08

Which came just in time

Figure 1 English NHS funding: real annual changes, 1997/8 to 2020/21



Sources: data for 1997/8 to 2006/7, Department of Health, Financial Planning and Allocations Division, personal communication 2011; data for 2007/8 to 2014/15, Department of Health 2013a; data for 2015/16, HM Treasury 2013b; data for 2016/17 to 2020/21, NHS England 2013a.

Spending Review Case Study: Eddington Review of Transport

Richard Hughes

Public Financial Management Division

Slovakia: Spending Review Management

Bratislava, 1-5 February 2016





Different ministries require different approaches: Productive vs. Allocative Efficiency

DEPARTMENT X		Projects			
		Proj 1	Proj 2	Proj 3	Proj 4
Processes	Human Resources				
	Procurement				
	Transactions				
	Corporate Services				
	Fees & Charges				
	Asset Management				



Productive Efficiency (Health)



Allocative Efficiency (Transport)



Eddington Review Background

- **Chaired by Sir Rod Eddington**
 - Australian
 - Former CEO of British Airways
 - Turned BA around after 9/11
 - Scrapped Concorde
- **Remit was to advise on the potential for strategic transport decisions to affect the productivity, stability and growth of the UK economy over the next 30 years**
- **Joint team of 12 officials**
 - 4 HM Treasury staff
 - 8 Department of Transport Staff
- **Reported jointly to Chancellor (Brown) and Minister of Transport (Darling)**
- **4 Volumes with a total of 436 pages**



Eddington Review Timetable

- **Launched in March 2005**
- **Final Report in December 2006**
- **Transport White Paper in October 2007**
- **Informed 2008-10 Spending Round for Transport**
- **2010 Election saw Con-Lib Coalition Government which partly reversed reforms**
 - Crossrail in London
 - High speed rail b/w London, Leeds, Birmingham, & Manchester
 -

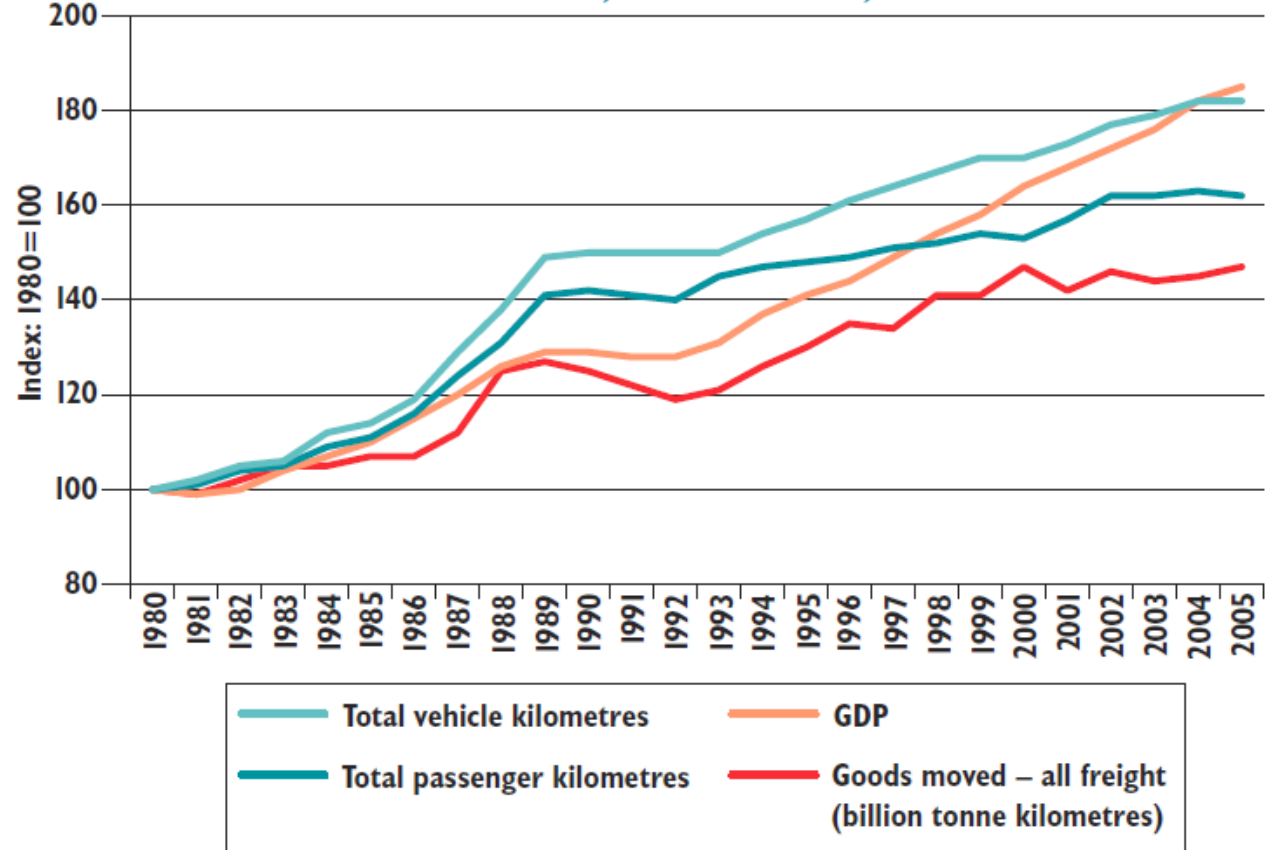


Eddington Review Budget

GBP	HMT 2005-06	HMT 2006-07	DfT 2005-06	DfT 2006-07	Totals
Pay Total (including agency staff)	181,549.70	182,507.59	231,774.24	254,505.50	850,337.03
Training for team members	875.46		4,968.17	1,343.50	7,187.13
Office supplies	8,923.63	425.31	5,868.87	769.56	15,987.37
Travel and Subsistence	5,419.96	11,458.16	7,172.77	1,945.71	25,996.60
Stakeholder event costs	2,469.51	1,108.99	1,194.50	1,392.15	6,165.15
Academic research & modelling consultancy	34,800.00	25,200.00	91,234.34	239,277.91	390,512.25
Publication and launch costs		37,679.00		1,878.25	39,557.25
Total Non Pay	52,488.56	75,871.46	110,438.65	246,607.08	485,405.75
Total	234,038.26	258,379.06	342,212.89	501,112.58	1,335,742.70

Eddington Findings (1): Transport links key to economic growth

Figure I: Growth in traffic, passenger kilometres, freight tonne kilometres and GDP, Great Britain, 1980-2005

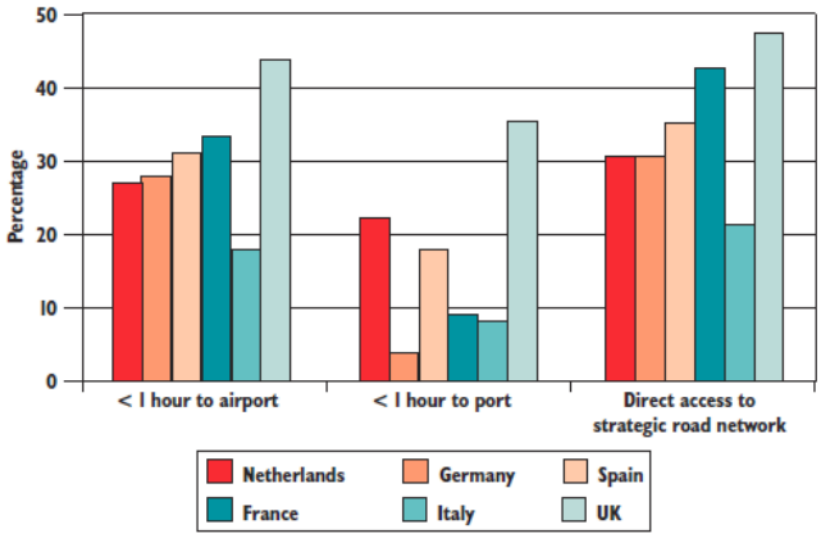


Eddington Findings (2): Adequacy of transport network

UK has good international transport connections

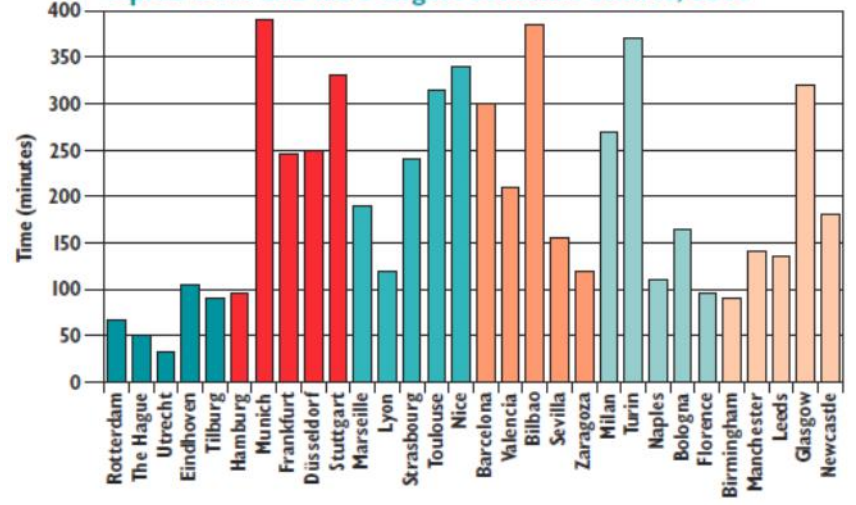
UK has also has good intercity connections

Figure 2.3: Percentage of urban population of selected EU countries directly connected to the strategic road network, within one hour of a major airport and within one hour of a major port



Source: Eddington Study analysis of data from: Eurostat, www.citypopulation.de and AA big road atlas, Europe.

Chart 2.4: Journey time by rail between selected European capital cities and the 5 largest economic centres, 2005



Source: Eddington study analysis using data from: www.nationalrail.co.uk; www.bahn.de; www.sncf.com; www.trentitalia.it; www.rns.nl; and www.renfe.es.

Eddington Findings (3): Congestion

UK's biggest problem is urban congestion

Especially at peak travel times for commuters

Figure 2.7: Congestion on the road network, Great Britain, 2003

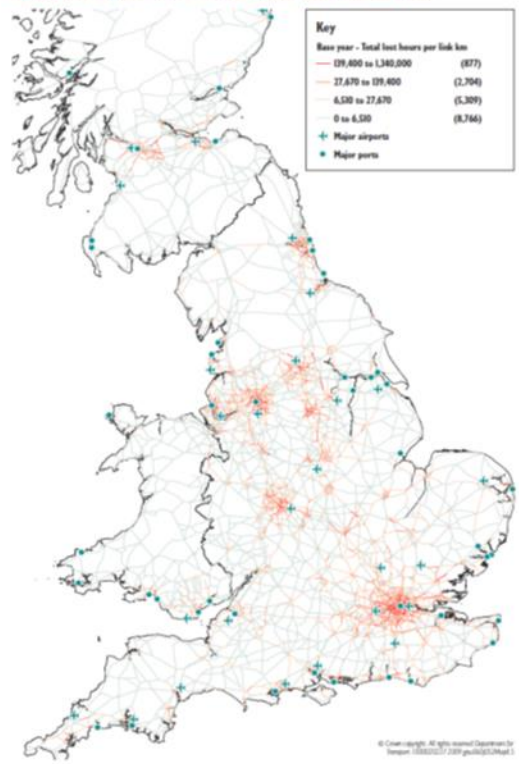
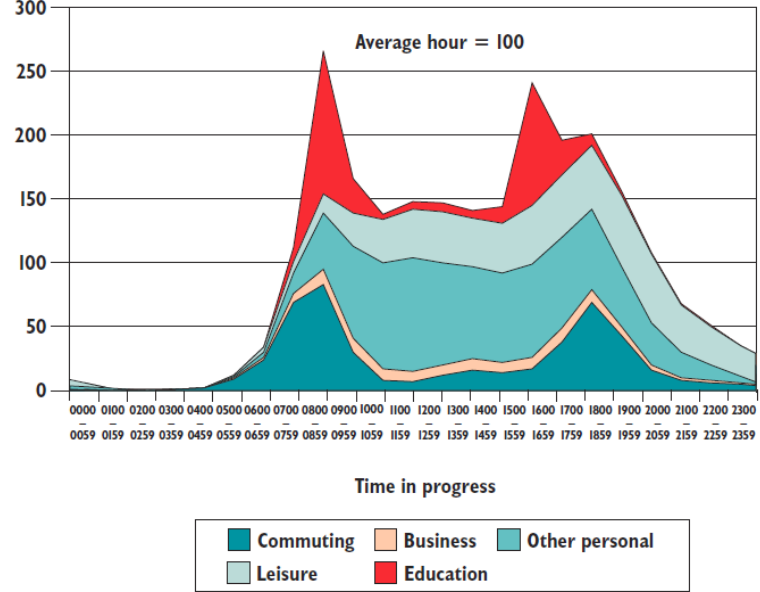


Figure 5: Trips in progress by hour of day and purpose, Great Britain, 2002-2004



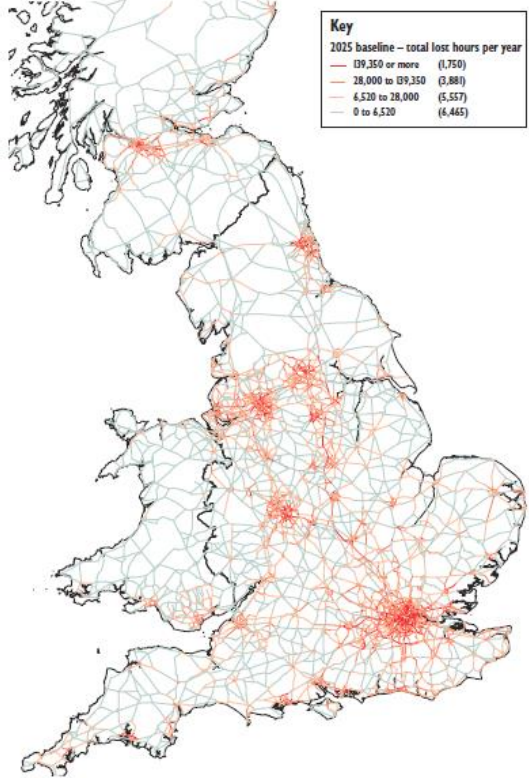
Source: National Travel Survey, 2005. DfT.

Eddington Findings (4): Economic Implications

Congestion is going to get a lot worse by 2026

...with significant costs to UK economic potential

Figure 3.1: 2025 congestion patterns on Great Britain road network



Source: DfT. © Crown copyright. All rights reserved. Department for Transport, 10/02/2017 2:00 pm (dft/3027861/1.1)

Figure 3.8: The cost of rising road congestion under the main scenarios

	Additional cost of congestion in England in 2025 relative to 2003 (£ billion, 2002 prices)				
	Central	High demand	Low demand	Benign	Optimistic technology
Additional cost to business and freight	10-12	12-14	7-9	3-4	6-7
Additional cost to other users	12-13	15-16	9	3-4	7-8
Total additional cost to all road users	23-24	28-29	17	7-8	14-15

Note: These are purely estimates of 'time lost' and are therefore conservative estimates. They do not include: reliability; labour market, agglomeration, trade and globally mobile invest opportunities; area specific values of time; and the impacts on other modes.

Eddington Recommendations (1): Charging and Investment

Charging can cut congestion & raise money

Which should be invested in urban & gateway links

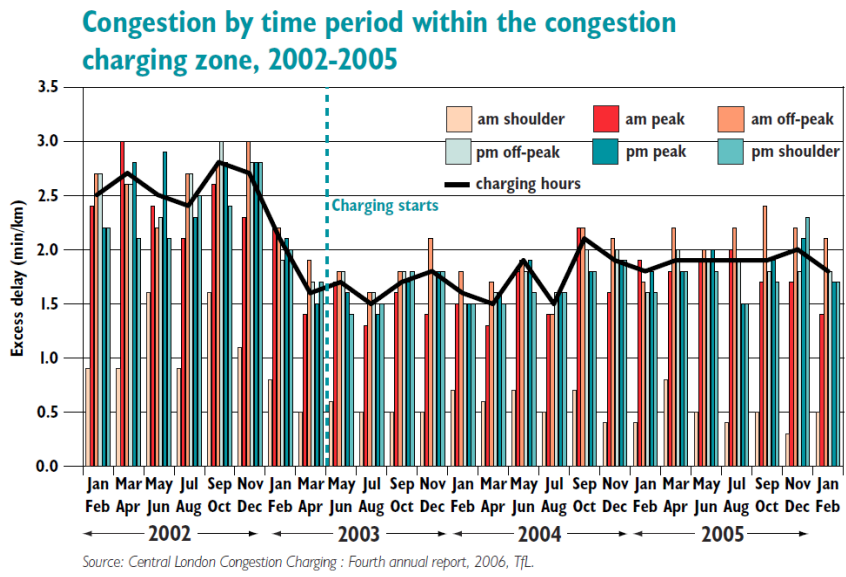
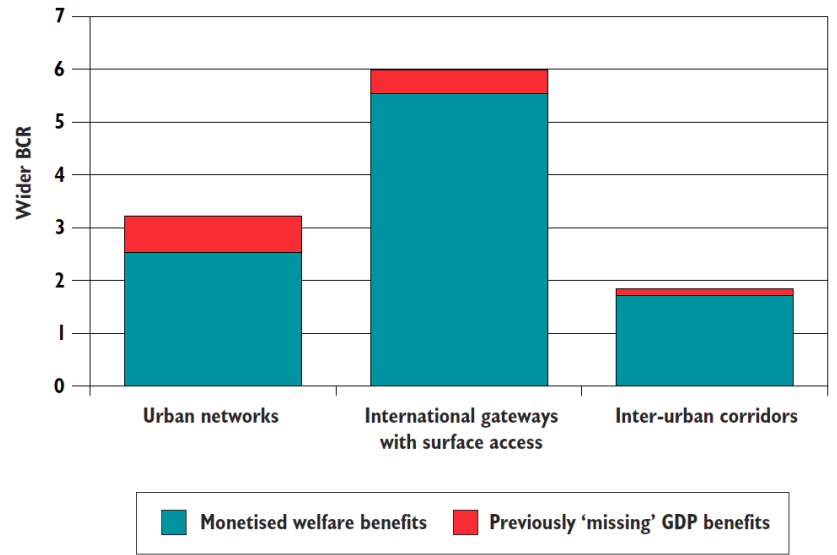


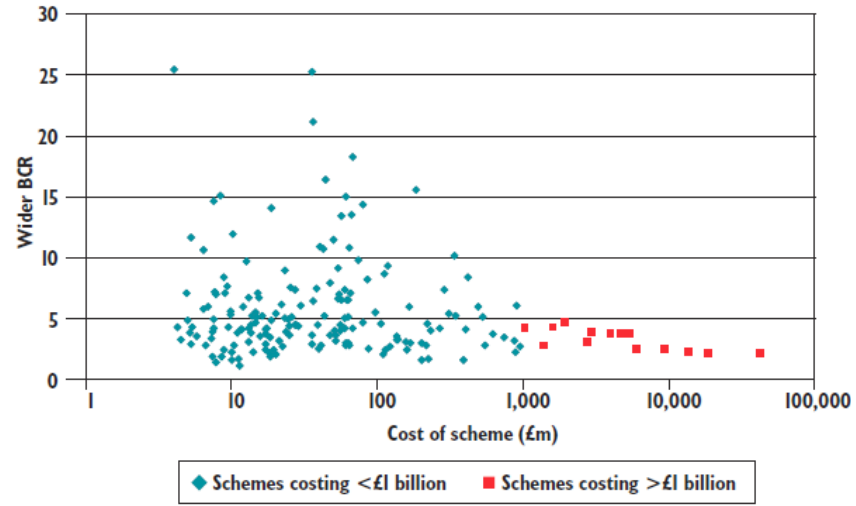
Figure I.5: Average economic returns from government expenditure with GDP impacts added in: wider BCRs



Eddington Recommendations (2): Project Size and Financing

Transport needs to avoid megaprojects

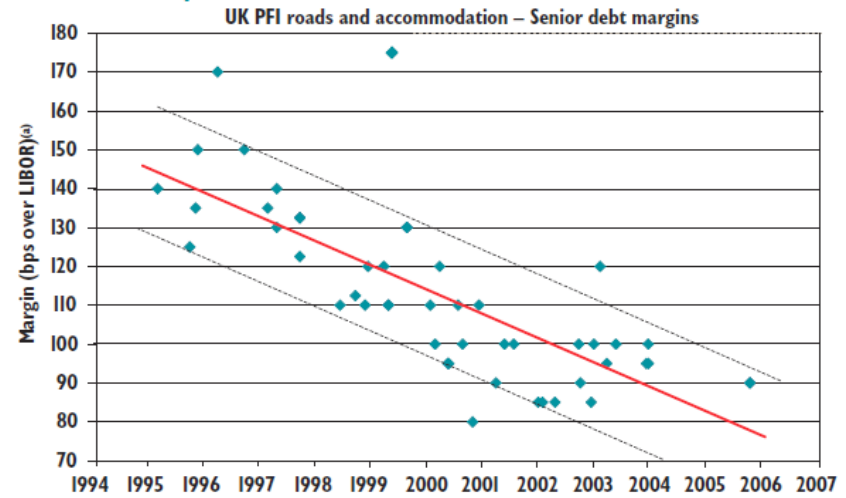
Figure 1.8: Economic returns of smaller schemes relative to larger schemes (those costing more than £1 billion)^a



^aCosts are in a log scale.
Source: DfT.

and leverage growing private finance

Figure 4.2 The margin of basis points above base rates, i.e. the price of risk



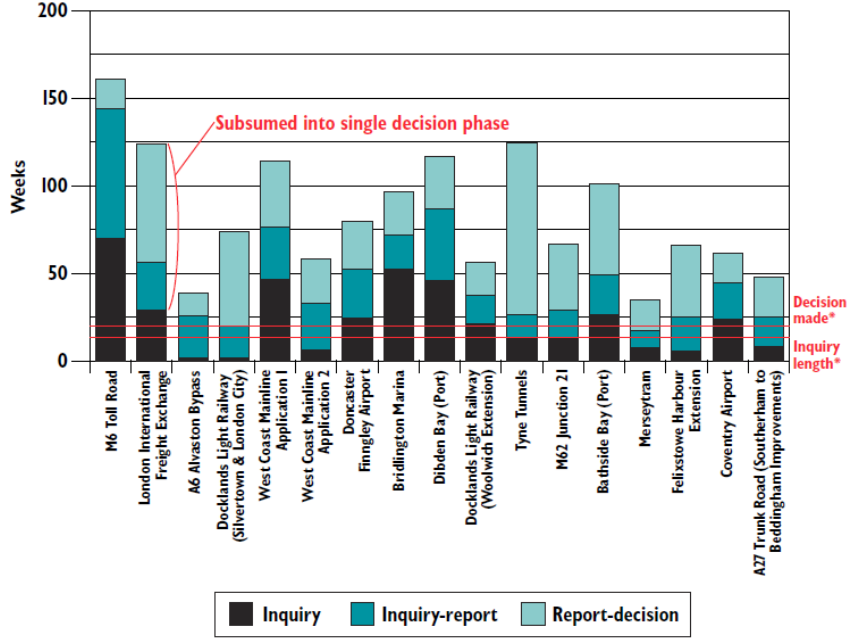
^(a) Margin of basis points (bps) above base rate (LIBOR). LIBOR is the London Inter Bank Offered Rates, based on the interest rates at which banks offer to lend unsecured funds to other banks in the London wholesale money market.
Source: Dealogic Projectware.

Eddington Recommendations (3): Project Decision-making

Transport needs to speed up decision-making

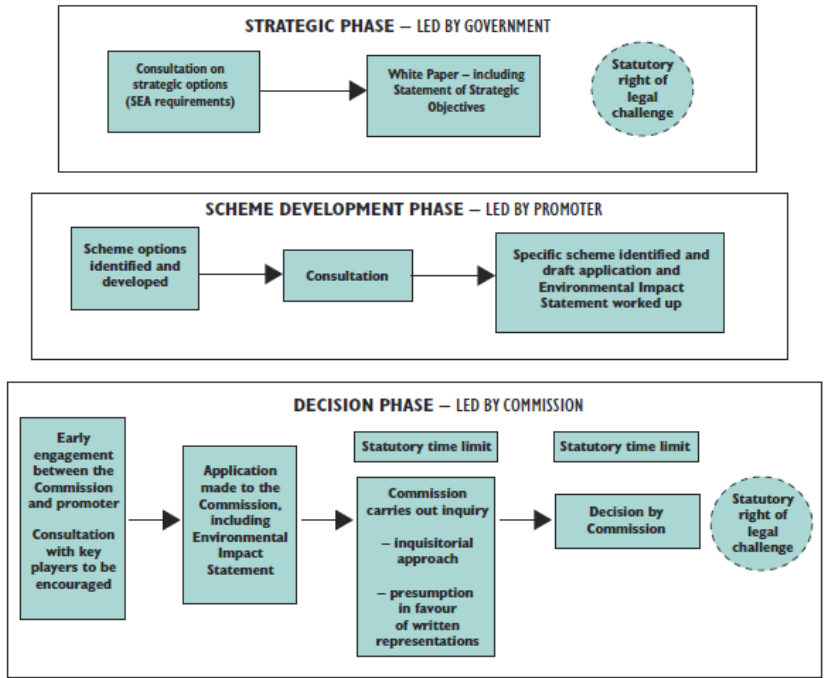
Establish independent planning commission

Figure 5.II: The reforms can deliver substantial benefits



*These are intended as indicative timings only.
Source: Eddington's analysis of Planning Inspectorate and DfT data.

Figure 5.9: The package of proposals



Source: Eddington Study.

Integrating Spending Reviews into Budgets

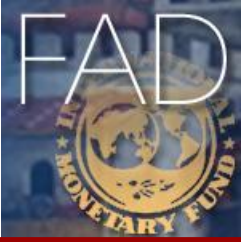
Richard Hughes

Public Financial Management Division

Slovakia: Spending Review Management

Bratislava, 1-5 February 2016





Outline of the Presentation

- I. Spending Review Timetable**

- II. Locking Savings into Budgets**

- III. Things to Watch Out For**



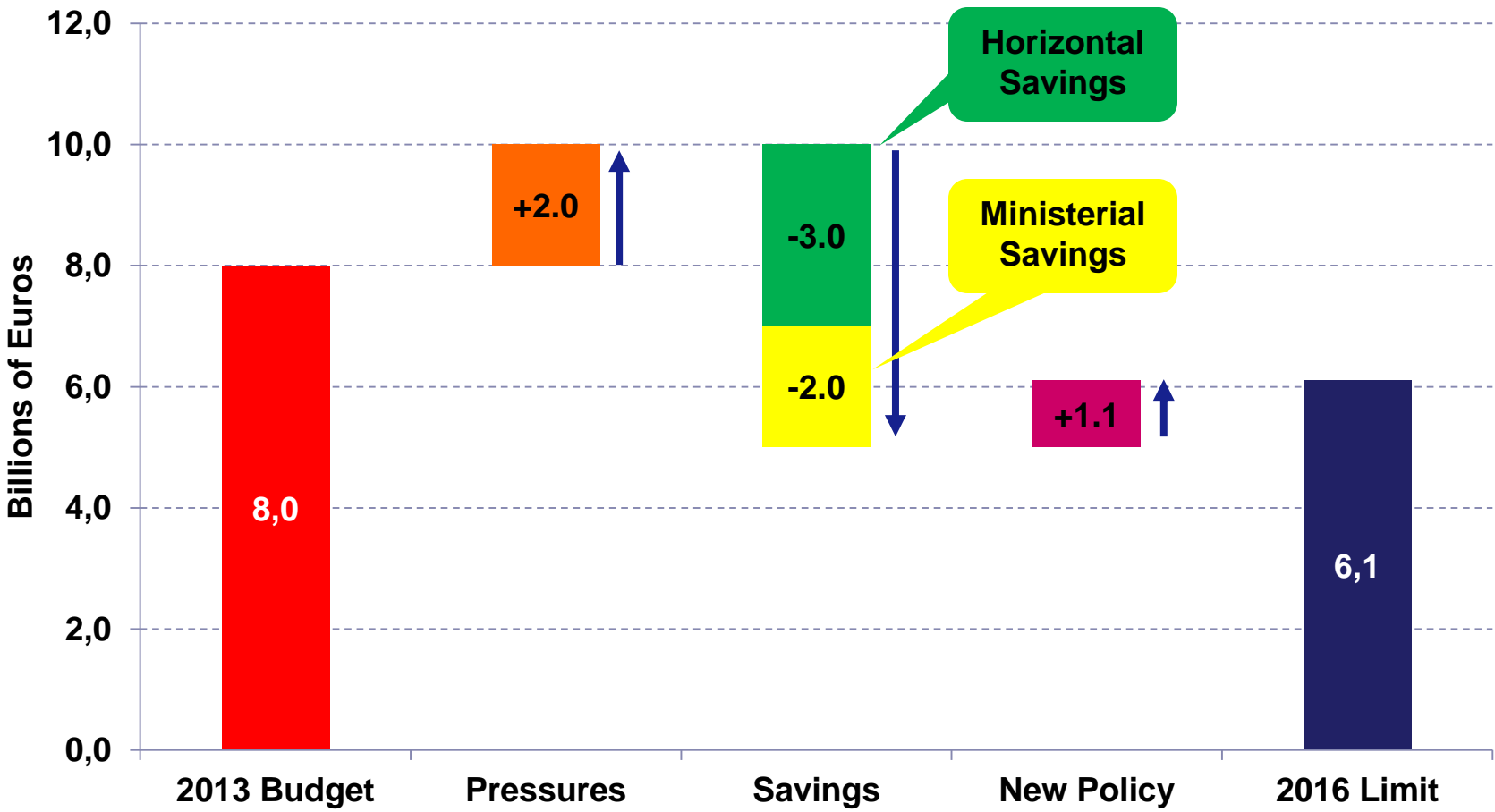
I. Spending Review Timetable

Jan 2016	March 2016	July 2016	Sept 2016	Jan 2017
2 months	5 months	2 months	4 months	
a. Preparation Phase	b. Review Phase	c. Decision Phase	d. Implementation Phase	
Macro-Fiscal Forecast Savings Target Organization Guidance Agree Review Areas	Benchmarking Generate Options Forecast Baseline Estimate Savings Recommendations	Technical Meetings Ministerial Negotiation Cabinet Approval of <ul style="list-style-type: none"> Savings Measures New Spending Budgetization	Report to Parliament Publish Budget Delivery Planning Approve Budget Enact Legislation	



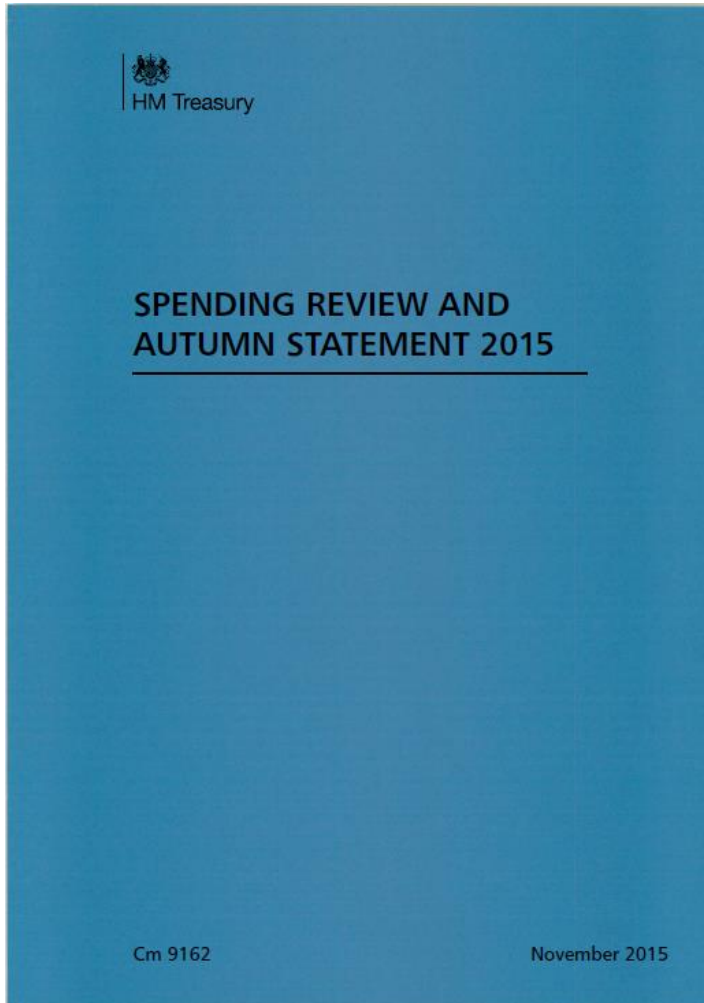
II. Locking Savings into Budgets: Accounting for Savings (and New Spending)

Spending Review Submission for Ministry X





II. Locking Savings into Budgets: Spending Review Documentation



Contents of Report

1. Macroeconomic Context
2. Baseline Fiscal Scenario
3. List of Measures & Yield (+/-)
4. Post-Measures Fiscal Scenario
5. Summary of Key Reforms
6. Ministerial Spending Limits
7. Ministerial Chapters
 - a. Detailed Budget
 - b. Major Reforms
 - c. New Policies
 - d. Performance Targets



II. Locking Savings into Budgets: Presenting Measures in the Budget

Key Table # 1 Major Policy Measures

	2008-09 \$m	2009-10 \$m	2010-11 \$m	2011-12 \$m	2012-13 \$m	Total \$m
Secure and sustainable pensions						
Superannuation – reducing the concessional contributions caps	0.0	620.1	623.5	703.6	807.6	2,754.7
Private health insurance – fair and sustainable support	-1.0	-124.6	695.4	650.2	680.8	1,900.8
Tighten the income test taper	-0.4	132.9	284.7	364.1	451.5	1,232.7
Reform of Family Payments – pause to indexation of upper income thresholds of FTB-A, FTB-B and Baby Bonus	-0.6	209.6	292.0	435.1	459.5	1,395.5
Superannuation – contributing to sustainable retirement income reform by temporarily reducing the Government co-contribution	0.0	385.0	395.0	410.0	205.0	1,395.0
Family Tax Benefit Part A (FTB-A) – removing the link to pension indexation	0.0	43.1	189.5	292.0	498.7	1,023.3
Investing in our health						
Capping Safety Net Benefits for Items with Excessive Fees	0.0	18.8	111.1	142.1	179.6	451.6
Ensuring appropriate use of clinical procedures and adjusting to modern technologies	0.0	24.7	40.1	42.9	45.7	153.4
Diagnostic imaging and pathology services – changes to fees for fully depreciated diagnostic imaging equipment	0.0	-0.2	-0.6	64.7	70.6	134.5
Extending the PBS Reference Pricing Policies – Therapeutic Group Premium Policy	0.0	12.7	29.3	30.4	41.5	113.8
Improving fairness and integrity in the tax system						
Tightening access to non-commercial business losses	0.0	0.0	330.0	240.0	130.0	700.0
Superannuation – payment of small and insoluble lost accounts to unclaimed monies	0.0	0.0	183.7	36.1	9.7	229.6
Promoting a level playing field for small business	0.0	43.9	52.7	67.3	78.6	242.5
Better targeting of income tax exemption for overseas workers	0.0	0.0	215.0	225.0	235.0	675.0
Better targeting the concessions for Employee Share Schemes	0.0	10.0	90.0	60.0	40.0	200.0
Reprioritising spending						
Defence savings	0.0	0.0	100.0	200.0	1,700.0	2,000.0
Increasing visa application charges	0.0	86.0	95.6	106.6	114.1	402.3

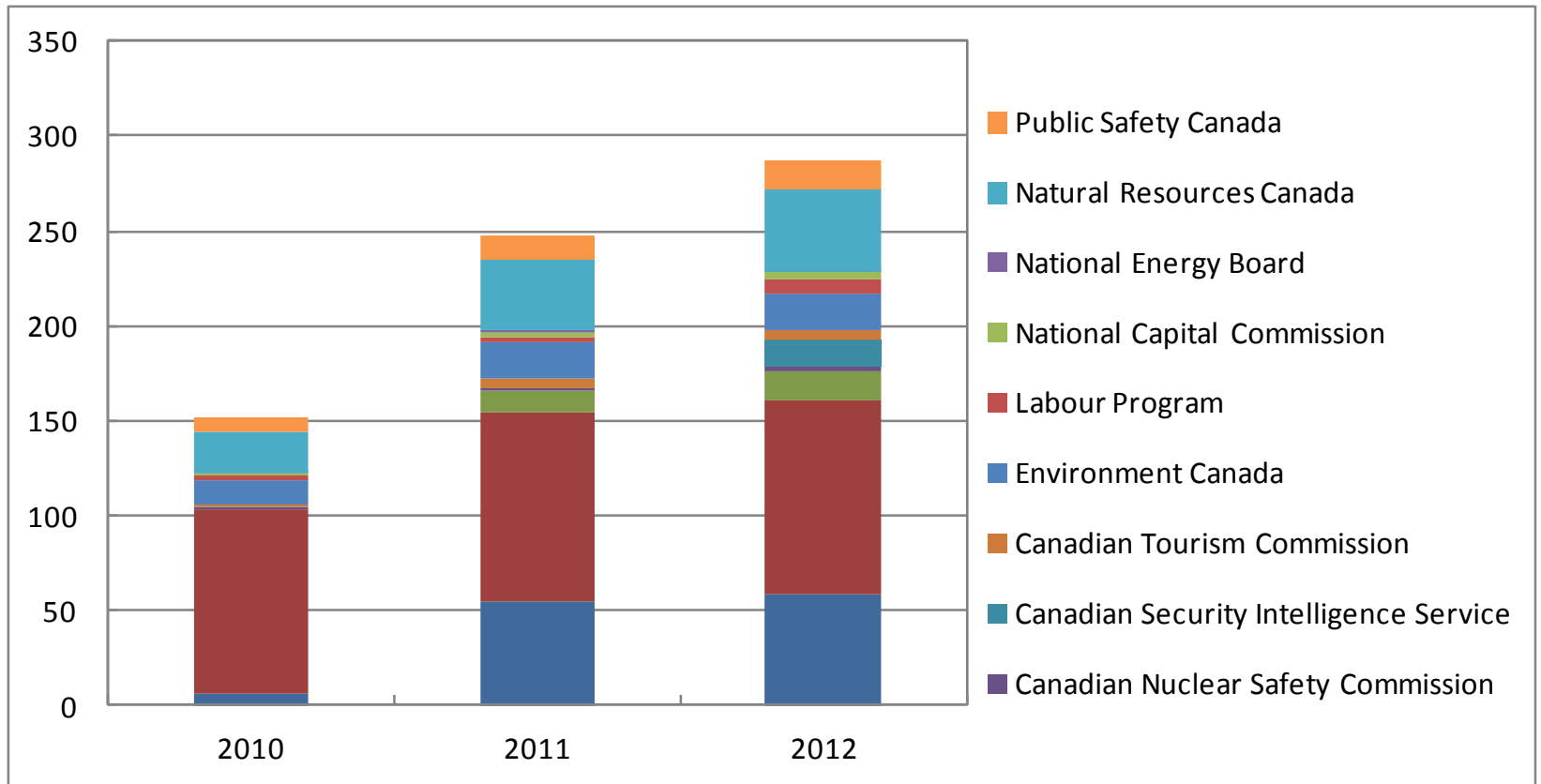
Key Table # 2 Ministerial Budget Limits

Table 1: Departmental Programme and Administration Budgets (Resource DEL excluding depreciation¹)

	£ billion					Per cent Cumulative real growth
	Baseline ²		Plans			
	2010-11	2011-12	2012-13	2013-14	2014-15	
Departmental Programme and Administration Budgets						
Education ³	50.8	51.2	52.1	52.9	53.9	-3.4
NHS (Health)	98.7	101.5	104.0	106.9	109.8	1.3
Transport	5.1	5.3	5.0	5.0	4.4	-21
CLG Communities ⁴	2.2	2.0	1.7	1.6	1.2	-51
CLG Local Government 5	28.5	26.1	24.4	24.2	22.9	-27
Business, Innovation and Skills	16.7	16.5	15.6	14.7	13.7	-25
Home Office ⁶	9.3	8.9	8.5	8.1	7.8	-23
Justice	8.3	8.1	7.7	7.4	7.0	-23
Law Officers' Departments	0.7	0.6	0.6	0.6	0.6	-24
Defence	24.3	24.9	25.2	24.9	24.7	-7.5
Foreign and Commonwealth Office	1.4	1.5	1.5	1.4	1.2	-24
International Development	6.3	6.7	7.2	9.4	9.4	37
Energy and Climate Change	1.2	1.5	1.4	1.3	1.0	-18
Environment, Food and Rural Affairs	2.3	2.2	2.1	2.0	1.8	-29
Culture, Media and Sport ⁷	1.4	1.4	1.3	1.2	1.1	-24
Olympics ⁸	-	0.1	0.6	0.0	-	-
Work and Pensions	6.8	7.6	7.4	7.4	7.6	2.3
Scotland ⁹	24.8	24.8	25.1	25.3	25.4	-6.8
Wales ⁹	13.3	13.3	13.3	13.5	13.5	-7.5
Northern Ireland ⁹	9.3	9.4	9.4	9.5	9.5	-6.9
HM Revenue and Customs	3.5	3.5	3.4	3.4	3.2	-15
HM Treasury	0.2	0.2	0.2	0.2	0.1	-33
Cabinet Office ¹⁰	0.3	0.4	0.3	0.2	0.4	28
Single Intelligence Account 11	1.7	1.7	1.7	1.7	1.8	-7.3
Small and Independent Bodies ¹²	1.8	1.8	1.6	1.5	1.4	-27
Reserve	2.0	2.3	2.4	2.5	2.5	-
Special Reserve	3.4	3.2	3.1	3.0	2.8	-
Green Investment Bank	-	-	-	1.0	-	-
Total	326.6	326.7	326.9	330.9	328.9	-8.3
memo:						
Central government contributions to local government ¹³	29.7	27.5	26.3	25.5	24.2	-26
Local Government Spending ¹⁴	51.8	49.8	49.5	49.5	49.1	-14
Central government contributions to police	9.7	9.3	8.8	8.7	8.5	-20
Police Spending (including precept)	12.9	12.6	12.2	12.1	12.1	-14
Regional Growth Fund	-	0.5	0.5	0.4	-	-

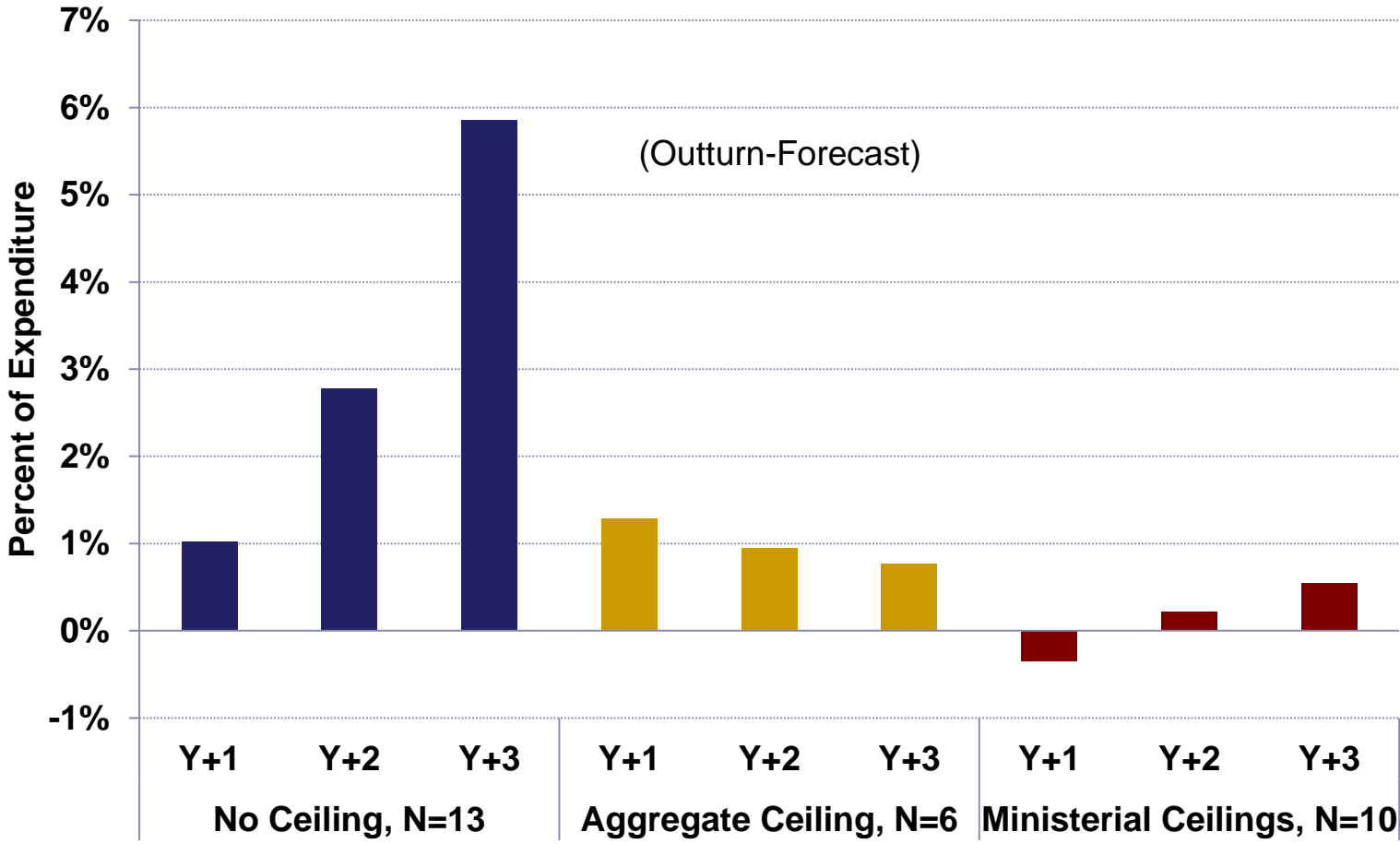
II. Locking Savings into Budgets: Time profile of savings

Canada 2010 Strategic Review savings by agency (C\$)



II. Locking Savings into Budgets: Multi-year expenditure ceilings

UK's Average Government Expenditure Forecast Error (1981-2009)



II. Locking Savings into Budgets: Settlement Letters



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ
CONFIDENTIAL – CSR07

The Rt Hon Hilary Benn MP
Secretary of State for Environment, Food and Rural Affairs
Nobel House
17 Smith Square
London SW1P 3JR

8th
October 2007

Dear Hilary,

**2007 COMPREHENSIVE SPENDING REVIEW SETTLEMENT –
DEPARTMENT FOR ENVIRONMENT FOOD AND RURAL AFFAIRS**

This letter records the 2007 Comprehensive Spending Review (CSR) settlement for the Department for Environment Food and Rural Affairs covering the financial years 2008-09, 2009-10 and 2010-11. It sets out the budgetary settlement, the agreed set of Departmental Strategic Objectives, the Public Service Agreements that your Department is leading on or contributing to, and the reforms and measures on which this settlement is conditional.

Building on the sustained increases in resources delivered in previous spending reviews, this settlement provides Defra with total Departmental Expenditure Limits of £3,744/£3,814/£3,960 million over the CSR07 period. Full details of the budgetary settlement are set out in annex A. This settlement is final and will not be reopened.

Policy conditions and flexibilities
Warm Front and fuel poverty

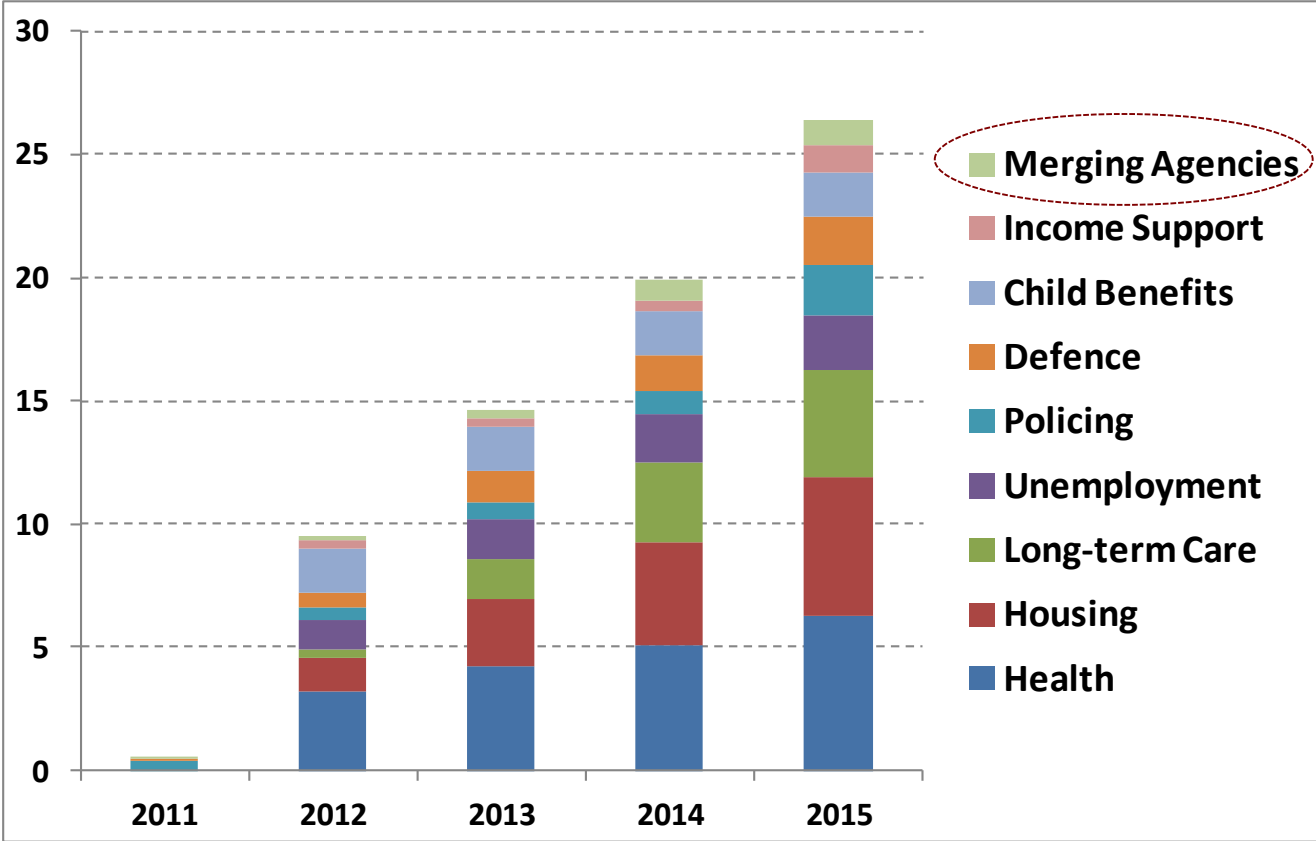
Contents of Settlement Letter

1. **Detailed spending settlement**
 - a. Ministry's multi-year spending limits
 - b. Transfers to local government
 - c. Assumptions about own-source revenue
2. **Other controls**
 - a. Headcount
 - b. Payroll
 - c. "Ringfences"
3. **Key reform commitments**
4. **Performance targets**
5. **Other conditions**
 - a. Asset sales
 - b. Risk management / sharing arrangements

III. Things to Watch Out For

a. Savings from “Synergies”

Savings Identified in Dutch 2010 Spending Review
(Billions of Euros)



III. Things to Watch Out For

b. Spend to save “mirages”

Measures that involve an up-front cost, yielding savings later

Classic Examples

- **ICT investments**
- **Fraud and non-compliance**
- **Redundancy packages**



III. Things to Watch Out For

c. Washington Monuments

Agencies will often serve up savings in full knowledge that they are politically infeasible...



Classic Examples

- The Washington Monument
- Veteran's pensions
- The Red Arrows

III. Things to Watch Out For

d. Double counting

Savings will often interact with each other:

$$1+1\neq 2$$



Classic Examples

- Wage reduction *and* hiring freeze
- Changes to welfare levels *and* indexation adjustment



III. Things to Watch Out For

e. Cost shifting

- **From ministry to ministry**
 - Get tax office to collect social benefits
- **From ministry to finance**
 - Replace a subsidy with a tax break
- **From Ministry to local government**
 - Devolve responsibility to local authorities
- **From today to tomorrow**
 - Most PPP schemes

Spending Review Management: Conclusions & Recommendations

Richard Hughes

Public Financial Management Division

Slovakia: Spending Review Management

Bratislava, 1-5 February 2016





Outline of Presentation

I. Reflections on Pilot Phase

II. Design of Spending Review Process

- a. Timetable
- b. Organization
- c. Outputs
- d. Guidance

III. Next Steps in Collaboration



I. Reflections on Pilot Phase:

a. A strong foundation on which to build

1. Clear medium-term fiscal objectives

- Structural balance by 2017 & overall balance by 2018
- € 2bn in deficit reduction over 2017-19
- Of which €1 bn in expenditure savings over 2017-19

2. Established areas of focus

- **Pilots:** Schools, Labor Offices & Tax Admin
- **2016:** Health, Transport, & IT

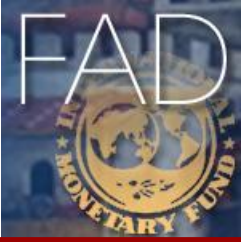
3. Strong analytical capacity at the center

- Institute for Financial Policy
- Government Office
- €5m+ for outside experts

4. Sound budgetary infrastructure

- Medium-term expenditure projections by ministry and program
- Separate baseline pressures (NPC) from new policy measures
- Performance targets by ministry and program

5. Realistic timetable (9 months)



I. Reflections on Pilot Phase:

b. Some challenges to be addressed

1. High-level political commitment (Capture politicians & public imagination)

- Review needs sustained support from PM and MoF
- March 2016 election provides an opportunity for high profile launch
- Needs to be sustained by Cabinet-level steering committee

2. Ownership in line ministries (Get the turkeys to vote for Christmas)

- Line ministries likely to engage in passive resistance to MoF-led exercises
- Line ministry-led pilot (education) most successful of 3 pilots reviews
- Future reviews need to be led by joint line ministry-MoF teams

3. Maintain a macro perspective (Keep your eyes on the prize)

- Tax review focused on comparing administrative costs between tax offices but not alignment of compliance effort to tax gaps
- Employment review comparing levels of activity across labor offices. Bigger issue may be whether ALM interventions effectively targeting most expensive clients (long-term unemployed) from a MoF perspective (ministry budget+benefits+ taxes)



I. Reflections on Pilot Phase:

b. Some challenges to be addressed

4. Move from analysis to recommendations (You'll always want more data)

- Resist the desire to always deepen analysis & move on to extracting policy & fiscal implications
- Schools review has done good analysis but has 3 more steps to go:
 - Step 1:** Analyze discrepancies in operating costs between schools
 - Step 2:** Understand differences between most vs. least efficient schools (size, energy efficiency, charging for facilities, maintenance contracts)
 - Step 3:** Estimate gains from generalizing best practice (some fraction of total discrepancy)
 - Step 4:** Identify how to extract savings (min. school size, single energy tariff, contract out maintenance)

5. Lock savings into budgets (And throw away the key)

- Big risk that agreed savings measures are undone in future budgets
- Set multi-year spending limits for ministries at the conclusion of their review
 - Ministries value multi-year budget certainty to drive reform
 - Penalty for breaking multi-year budget limit can be requiring another round of review

6. Track reform implementation (Track the bangs, not just the bucks)

- Reviews will need to identify metrics for evaluating whether efficiency is improving
- MoF needs to revitalize performance budgeting regime to focus a few (3-5) stretching targets per ministry to be monitored over the next 3-5 years.



II. Design of the Spending Review Process:

a. Timetable

	Jan 2016	March 2016	July 2016	Sept 2016	Dec 2016
Time	2 months	5 months	2 months	4 months	
Phase	a. Preparation	b. Review	c. Decision	d. Implementation	
Activity	<ul style="list-style-type: none"> Macro-Fiscal Forecast Savings Target Agree Review Areas Organize Review Team Issue Guidance 	<ul style="list-style-type: none"> Forecast Baseline Data Analysis Generate Options Estimate Savings Recommendations 	<ul style="list-style-type: none"> Technical Meetings Ministerial Negotiation Cabinet Approval of <ul style="list-style-type: none"> Savings Measures New Spending Budgetization 	<ul style="list-style-type: none"> Publish Budget Proposal Delivery Planning Enact Legislation Approve Budget Approve Action Plans 	
Output	<ul style="list-style-type: none"> SR Launch Document* <ul style="list-style-type: none"> Macro-fiscal context Savings target ToRs for reviews <p>Deadline: April 2016 (in Stability Programme)</p>	<ul style="list-style-type: none"> SR Submissions <ul style="list-style-type: none"> Findings Recommendations Savings/Costs <p>Deadline: July 2016 (in Budget Requests)</p>	<ul style="list-style-type: none"> SR Final Reports* <ul style="list-style-type: none"> Analysis Reform measures Savings/costs Performance targets <p>Deadline: Sept 2016 (in Budget Document)</p>	<ul style="list-style-type: none"> SR Action Plan <ul style="list-style-type: none"> Legal changes Administrative changes Workforce implications Timetable <p>Deadline: Dec 2016</p>	

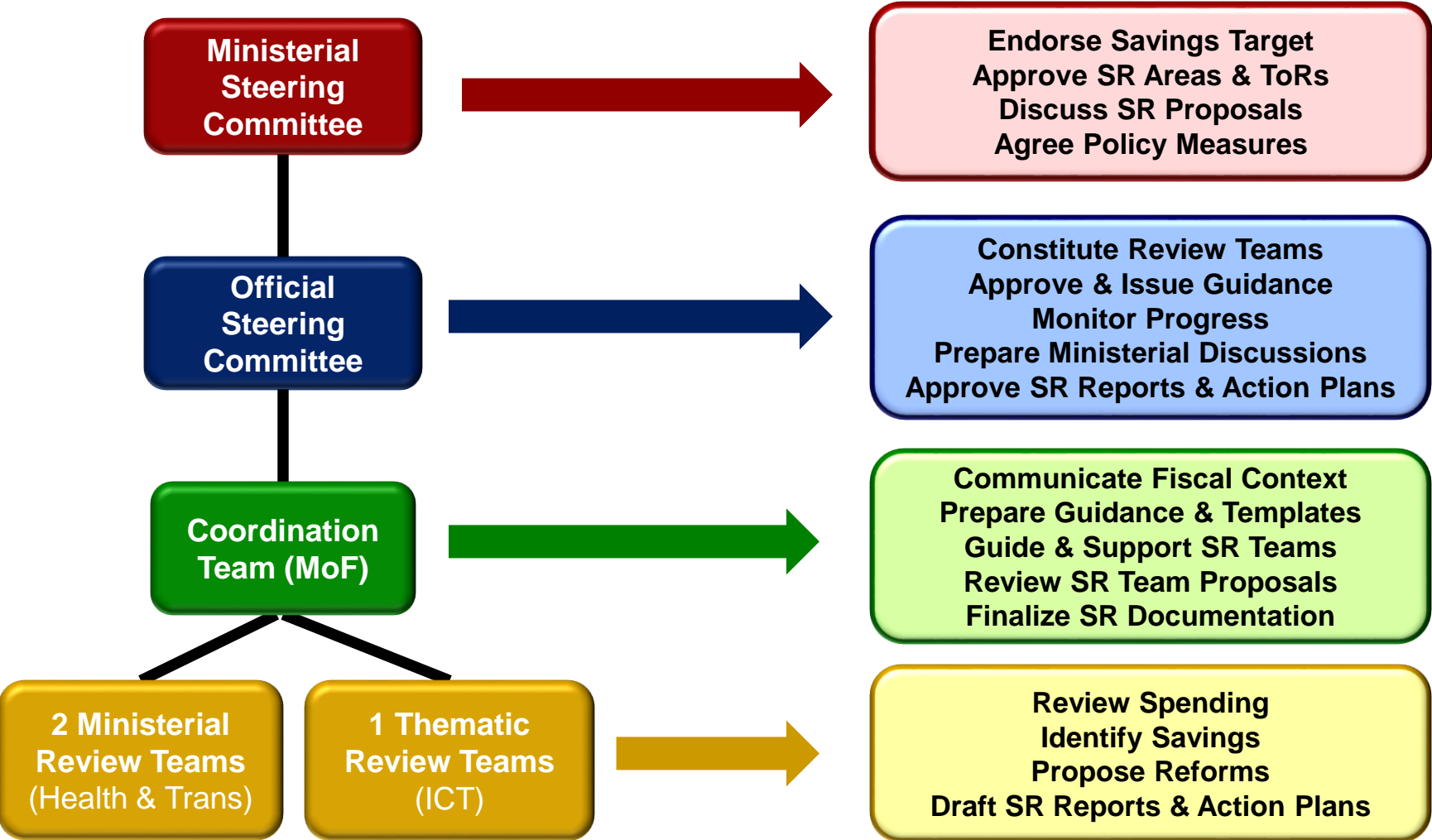
* Published

II. Design of the Spending Review Process:

b. Organization within Government

Organization

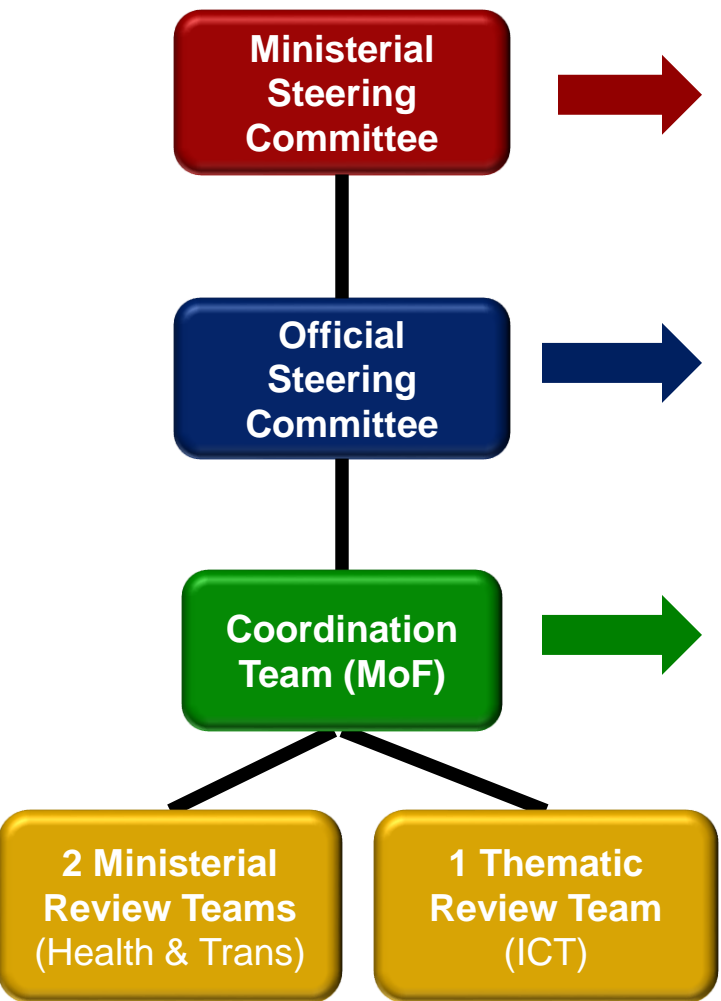
Responsibility



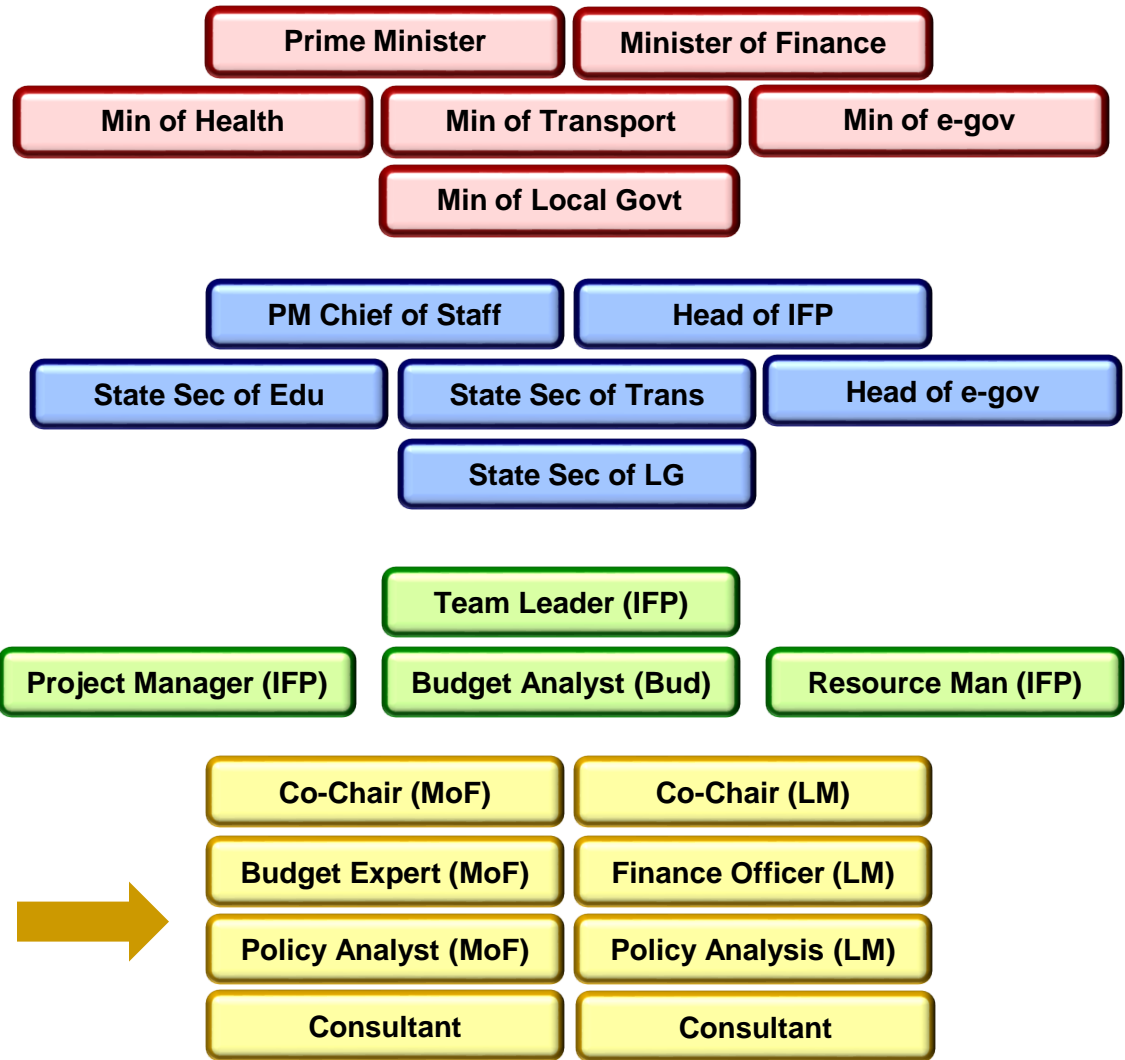
II. Design of the Spending Review Process:

b. Organization: Committees & Team Members

Organization



Membership





II. Design of the Spending Review Process:

c. Guidance

- **Background**
 - Fiscal context
 - Objective of reviews
 - Savings target
- **Organization**
 - Ministerial & Official Steering Committees
 - Role of MoF & LMs
 - Organization and responsibilities of review teams
 - Timetable
- **Content of Spending Review Submissions**
 - Areas of focus
 - Analytical findings
 - Policy recommendations (including Savings/Cost)
 - Budgetary impact (in Budget submission)
 - Impact on other ministries and local government
- **Technical Parameters**
 - Forecast assumptions
 - Calculation of savings/costs
 - Local government implications



II. Design of the Spending Review Process:

d. Outputs

SR Launch Document

Fiscal Context

- Targeting return to balance by 2018
- Govt has ambitious policy agenda
- Need at least €1bn expenditure savings

Spending Review Process

- Govt launching rolling SR program
 - Meet fiscal consolidation objectives
 - Release resources for new priorities
 - Improve public services for citizens
- SRs build on past fiscal reforms
 - Medium-term budgeting
 - Program budgeting
 - Performance objectives
 - SR pilots

Review Areas

- Reviews will cover all Ministries by 2020
- First round will be Health, Trans & ICT
- SRs will report in time for Budget 2017
- Appendix: ToRs for SRs

SR Final Report

Areas of Focus

- Program: Roads maintenance
- Theme: School size
- Organization: Employment Service

Review Findings

- Delivery Mode: Private sector 50% more efficient at maintaining roads
- Service Configuration: Schools with <150 students are more expensive & have worse outcomes
- Management: Employment advisors spend 80% of time on clients account for < 20% of welfare cost

Recommendations: Savings+/Cost-

- Contract out roads maintenance: +10/+20/+30
- Phase out schools of < 150 students: -5/+30/+50 & introduce busing: -2/-2/-2
- Introduce welfare cost-weighted performance management in Employment Offices: +50/+100/+120

Performance Targets

- 50% of roads maintained by private sector by 2020
- 75% reduction in schools with <150 students by 2020
- 10% fall in long-term unemployment by 2020



III. Next Steps in Collaboration

- **Next Week:** Mission Report (incl. Template for SR Guidance)
- **End March 2016:** EC SRSS financing secured for further IMF advice
- **May 2016:** IMF-EC mission to guide health, transport, and ICT reviews
- **Nov 2016:** IMF-EC mission to review lessons from first round of SRs and design second round
- **Ongoing:** Remote support from IMF HQ