

**Value for Money Division
Ministry of Finance**

**Value for Money in Slovakia:
Three Years on**

http://bit.ly/VfM_SlovakRep

Matej Kurian
Value for Money Division, MoF Slovakia
matej.kurian@mfsr.sk

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2015: Sketch of out the landscape

- SK: 5,5 mil. people, Eurozone member, unitary, parliamentary system
- Fiscal and macro in good shape
- Not doing bad, but quality of public services lagging behind, especially education and healthcare
- No immediate threats
- Elections coming in few months
- Got intrigued by spending review as a tool
- Started working on pilots and talking to those who walked the path

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

Value for money - government initiative since early 2016

- Spending review becomes part of the broader “Value for Money” initiative in the government manifesto.
- Major investment assessment is the second part - >40m (10 IT)
- 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

Spending reviews come in many shapes. Slovak one focuses on value. For now.

- Comprehensive (and regular) review of effectiveness and efficiency of expenditures, by sector or by a common topic (IT, wages, etc.)
- Review „most“ of the public expenditure during the election term
- Proceed in rounds (roughly 3 sectors per year)
- Cut „bad“, promote „good“ expenditure within each sector = focus on value rather than consolidation
- Aligned with budgetary process – **work in progress**
- Executed by internal capacities – analytical units in ministries, MoF leads the process, methodology and analytical capacity

| Some choices you make, some are made for you

1. **Value for Money:** Identify inefficiencies to decrease costs for the same services **yes**
2. **Reprioritization:** Shift expenditure from lower to higher priority sectors **not yet**
3. **Create Fiscal Space:** Make room for priority new spending within a sector **yes**
4. **Fiscal Consolidation:** Reduce the growth or level of public expenditure **partially**

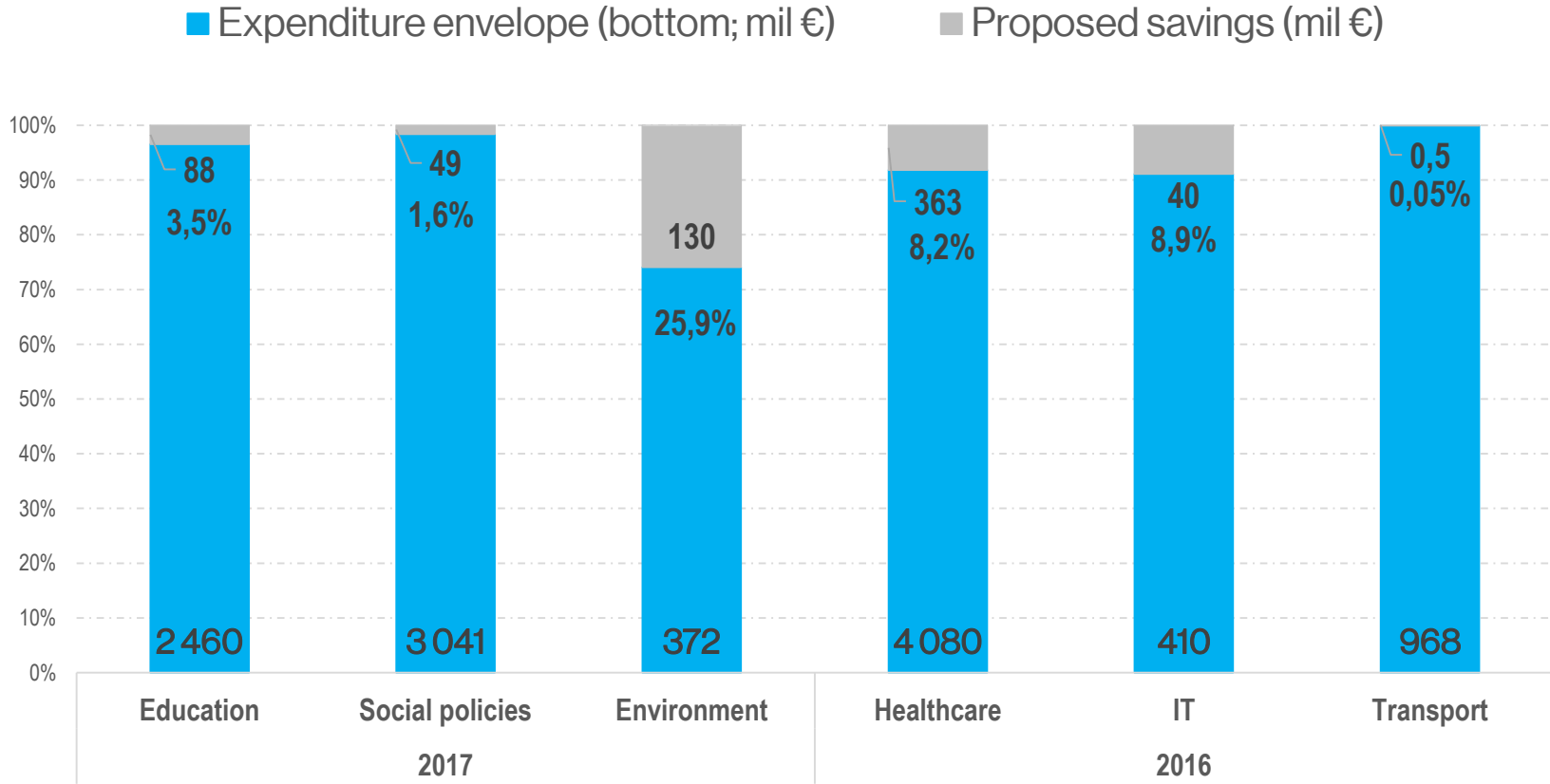
| **Some choices you make, some are made for you**

- 1. Strong coordination within MoF** **no**
- 2. Leadership by Ministers/Cabinet** **partially**
- 3. Collaborative exercise with Line Ministries**
partially
- 4. Clear outline of responsibilities at each level**
yes

Getting what we can, aiming for the moon

		SCOPE	
		Targeted	Comprehensive
FREQUENCY	Annual	Strategic Reviews (Australia: 2007-) (Canada: 2007-2010) Special Studies (Denmark: 1980s-) Program Evaluations (Korea: 2006-)	Zero Base Budgeting (USA: 1970s) Activity-Based Costing (USA: 1980s)
	Periodic	Value for Money Reviews (National Audit Offices) Base Realignment & Closure Commission (USA: 1985-2005)	Program Review (Canada: 1994-98) CSRs (UK: 1997-) RGPP (France 2008) Expenditure Review (Ireland 2011)

Six reviewed sectors



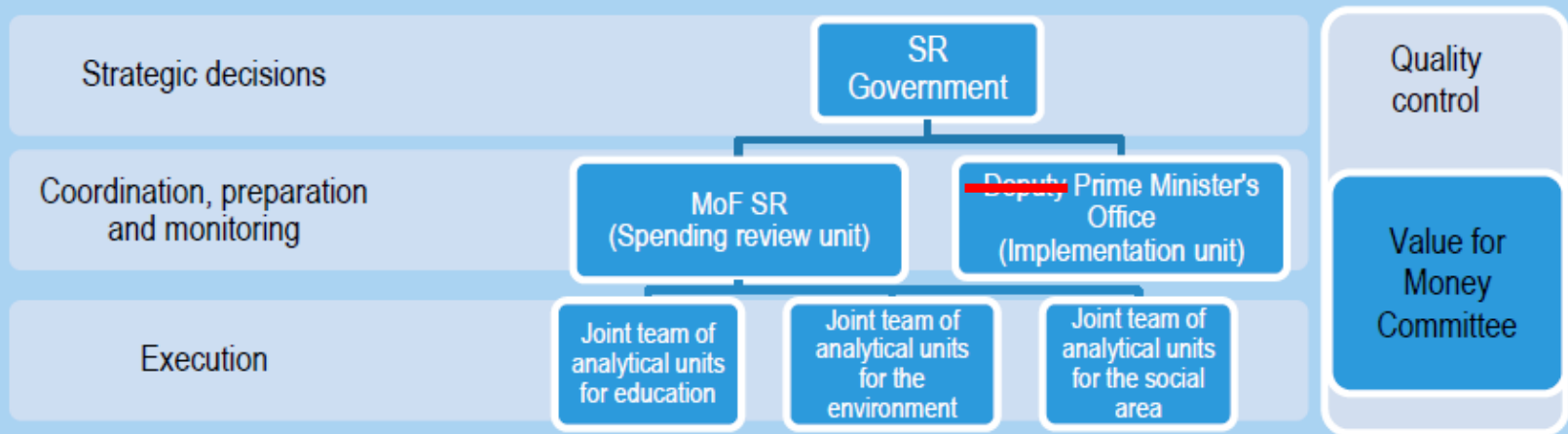
- On average, the proposed savings are **8 % of the budget**
- KPIs go beyond proposed savings measures – value, data, accountability, transparency

Evaluation of reviews up to date

	2016			2017		
	Health care	Transportation	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 (4,9 – 8,9 %)	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	✓	✓	✓	✓	✓	✓

Not a job for one person. Or a department.

FIGURE 42 – Expenditure review organisation

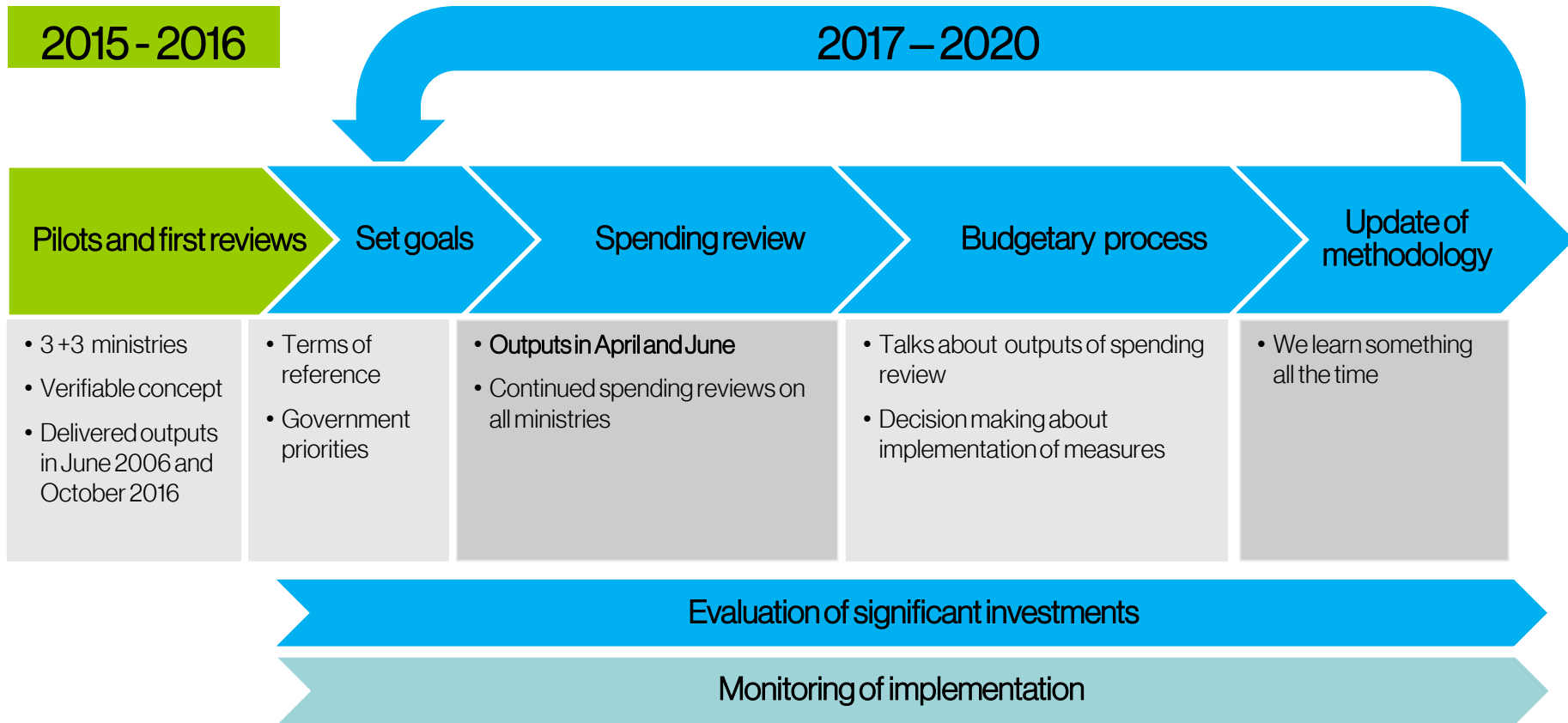


Source: MoF SR

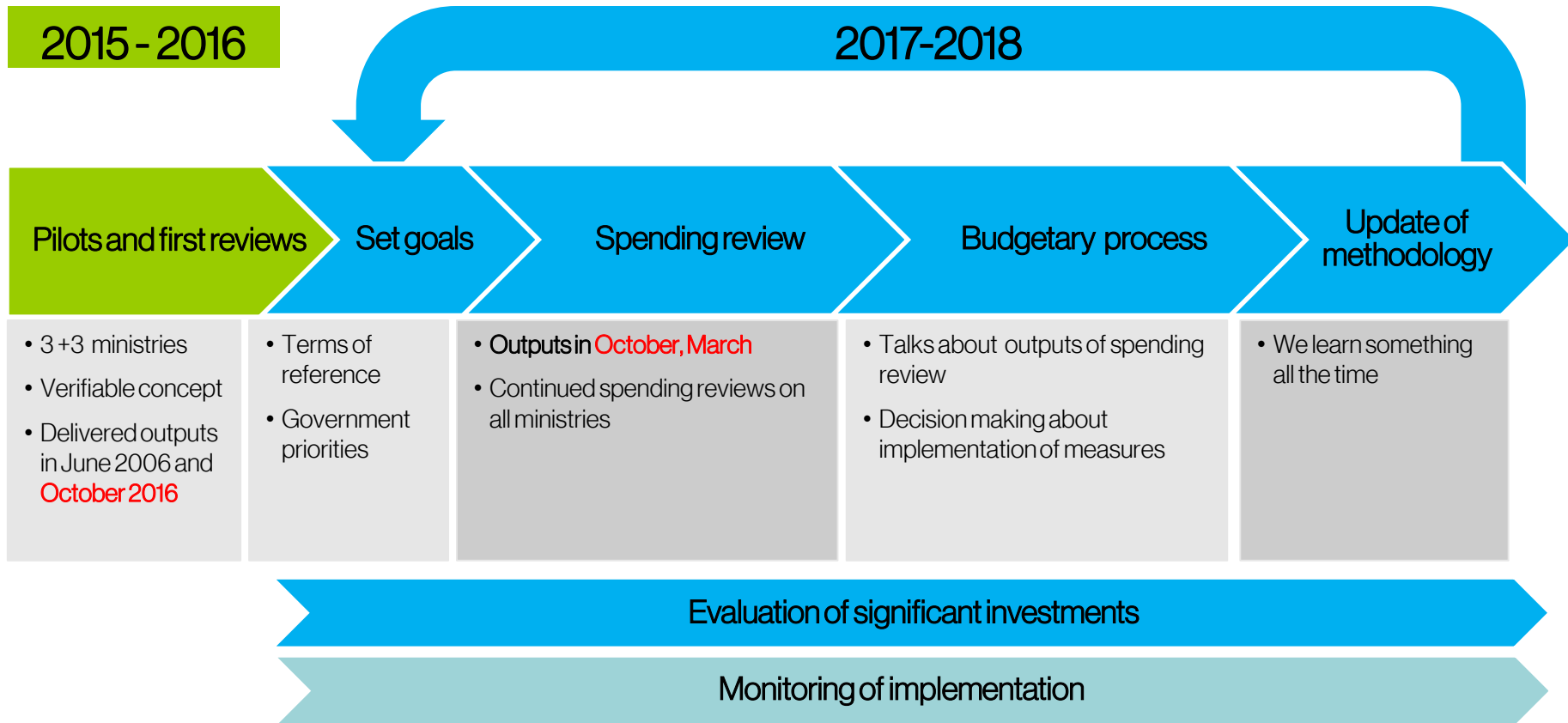
- 20 analysts at the MoF, more at the line ministries
- funded by the ESF, external support from the SRSP and IMF

Review. Revise. Repeat.

- 1) ToR (government); 2) Interim reports; 3) Final reports; 4) Put in budget (government)



Revised outputs timing to align better with budget preparation.



I Lessons learnt

- **Political ownership (including partner)**
 - Crucial for the exercise. It is never good enough
 - Manage expectations (ToRs)
- **Internal staff is value for money**
 - Rather than outsourcing the analysis, results are much better when an in-house analytical unit exists
 - In-house analysts are good cops, MoF are bad cops
- **Transparency** – all reports and datasets from us are public, lot of media attention
- **Budget is key tool for MinFin**
 - 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 centre of government and elsewhere

Ownership, ownership, ownership. Terms of Reference help.

High-level political commitment. Given the significant and often difficult policy reforms that will be required to implement the recommendations of the reviews, sustained support from both the Prime Minister and Minister of Finance is essential to the success of the exercise. The PM and MoF should play a key role in the post-election launch of the first full

Ownership in line ministries. Any purely MoF-driven review exercise is likely to be stymied by passive resistance from the concerned line ministries. It is telling that the most successful of the three pilot reviews was the one (schools) which was led by the line ministry itself, albeit by a team headed by a former MoF official. The other two MoF-led reviews have made less

- The exercise comes at cost for the policy makers – balancing act between credible exercise and putting sponsor at risk (pilots)

I'd like to have something different, please.

Maintaining a macro perspective. Reviews need to focus on areas that are most likely to deliver the largest potential fiscal yield. Some of the pilots reviews have tended to become bogged down in trying to extract relatively modest savings from streamlining the operations of individual delivery units and missing some potentially larger opportunities from reorienting the activities of the service as a whole. Specifically, the tax administration reviews

- Even when carrying out a targeted review, you might not have resources to tackle wicked problems.
- If possible, talk about the elephant in the room

Numbers will have changed. Make sure some stay.

All Review Teams should agree with the MoF the baseline no policy change forecast for expenditure in each area at an early stage in the review process.

Locking savings into budgets. Once reviews have been completed, recommendations agreed, and savings identified, the MoF needs to find a means of locking those savings into budgets not only for 2017 but over the medium-term. Otherwise there is a significant risk that agreed savings measures will be partly or wholly undone by future budgets. The MoF therefore needs to find a means of setting multi-year spending limits for ministries at the conclusion of their reviews that factor in the delivery of agreed savings. Experience from other countries suggests that ministries value such multi-year budget certainty as a means of

- Impossible to have meaningful discussion / account for savings without NPC / baselines

| **Publicity brings pressure and accountability**

- all reports are public
- publish all the data and supporting material
- including implementation report – very popular with the press



documentation. The MoF therefore needs to revitalize its performance budgeting regime by using the reviews to inform the setting of a few (3-5) stretching performance targets for each program which should be actively monitored over the medium-term.

To change the system...you have to be in the system.

Budget system.

- Good baselines + measures as policy change
- Some of the tools : spending limits, measures, performance goals, annex the spending review reports
- Budget people know all the tricks of the trade – make use of them

Currently working on:

- making reviews mandatory
- all sorts of different investment methodologies

| Further resources + Questions

- Readings
- Our English webpage - http://bit.ly/VfM_SlovakRep
 - past spending reviews reports + Terms of References
 - presentations
 - IMF TA reports

I Assignment (to be presented in Ljubljana)

Congratulations. You are still the Budget Director in a Ministry of Finance of a medium sized country in South East Europe. The Minister of Finance liked your briefing and would like to try “spending review”.

He would like to do a pilot with results ready by the next budget. The Minister was not very specific on what sort of results she wanted to see.

You have 6 months and 5 of your fellow colleagues from the Ministry of Finance. Two of them have specialist knowledge of the sector.

I Assignment (to be presented in Ljubljana)

Based on the presentation and readings the minister wants you to work on a draft Terms of Reference for the spending review pilot. He would like to send it shortly to his fellow minister at the line ministry you discussed in the Question 5 of the previous assignment (or choose another one you are more familiar with).

- What areas do you suggest to focus on? Why?
- What are the fiscal goals of your spending review? How have you arrived at them?
- What are the qualitative goals of your spending review? How can you measure them?
- What milestones will you have during the 6 months and why? How do they feed into budget preparation process?