

SPENDING REVIEW FRAMEWORK

APPLICATION FOR BULGARIA



THE WORLD BANK

• Sofia

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1. Definition of Spending Review
2. Types
3. Process
4. Tools
5. Success factors
6. Examples in CEE
7. Role of the World Bank?

WHAT IS A SPENDING REVIEW

- “identifying and proposing measures for reducing and/or reallocating government spending,
- ...based on the systematic scrutiny of baseline expenditure.”

Key **objectives** of a spending review:

- to achieve **fiscal savings**, so that aggregate expenditure is reduced (i.e. fiscal consolidation)
- to **reprioritize spending** with a view to improve the overall effectiveness or efficiency of government programs and activities.

A spending review – a form of **public policy evaluation**; assesses programs or activities based on criteria such as effectiveness, efficiency, sustainability or overall value for money

TYPOLOGY OF SPENDING REVIEWS (1)

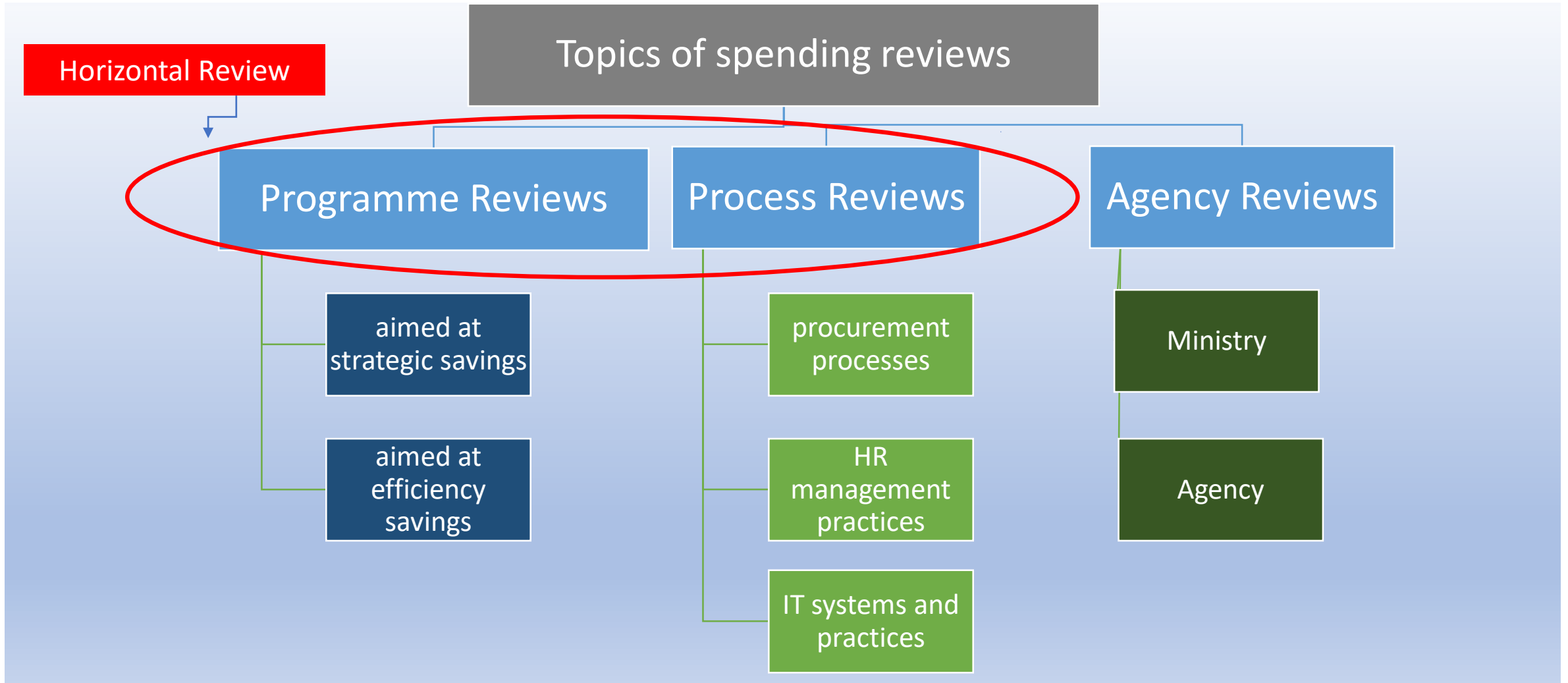
- **Comprehensive exercise** covering most of the central government budget: UK's 2010 Comprehensive Spending Review, Canada's 2011 Strategic Review, Ireland's value for money reviews
- **A selective and problem-driven approach:** number and scale vary greatly depending on the fiscal situation and policy priorities: Netherlands, Denmark, Poland, Bulgaria

RANGE OF SPENDING REVIEW APPROACHES

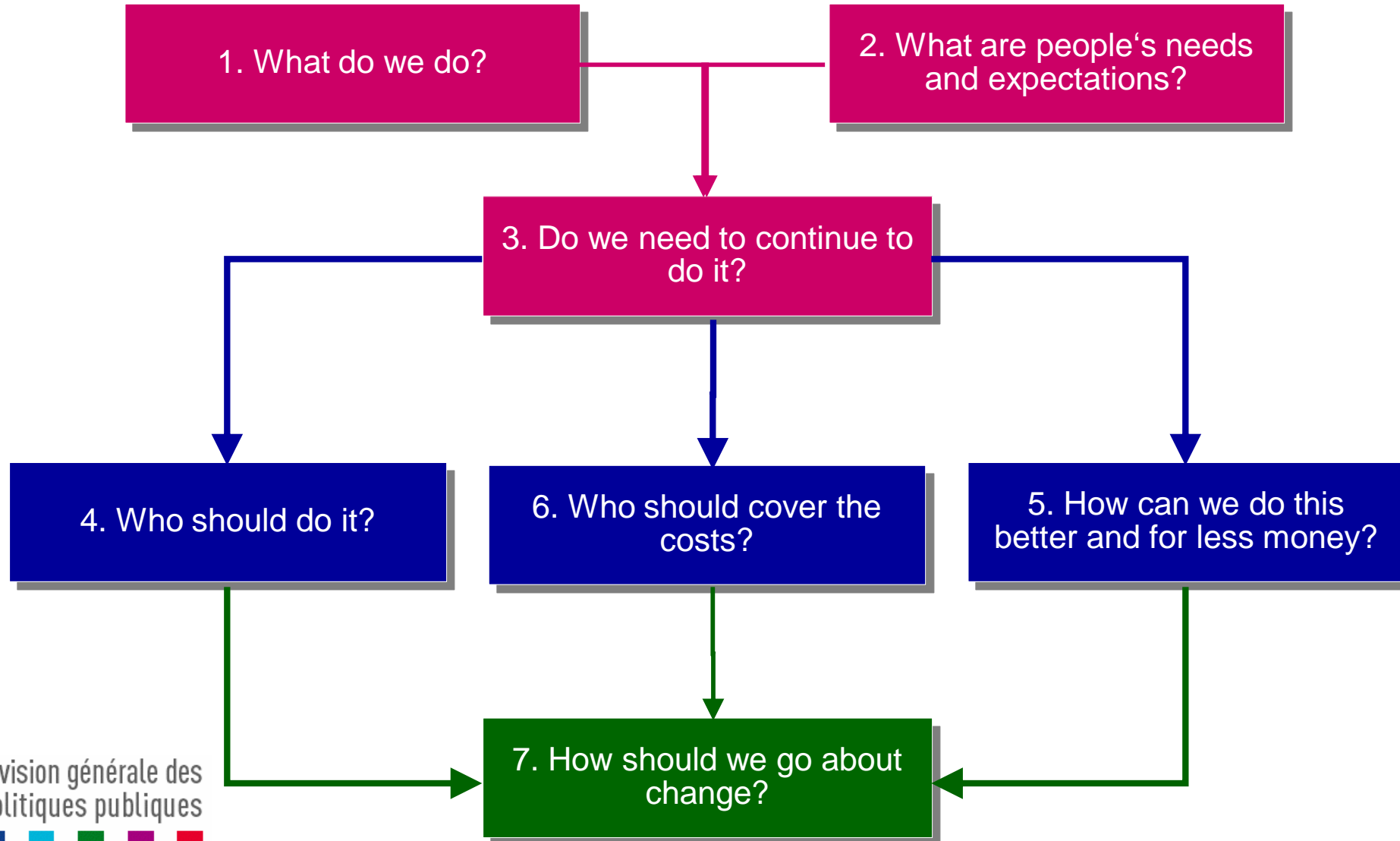
4 basic spending review models:

		SCOPE	
		Targeted	Comprehensive
FREQUENCY	Annual	<p>Lapsing Reviews (Australia: 2004-)</p> <p>Program Evaluations (Korea: 2006-)</p>	<p>Zero Base Budgeting (USA: 1970s)</p> <p>Activity-Based Costing (USA: 1980s)</p>
	Periodic	<p>Value for Money Reviews (Various NAOs)</p> <p>Base Realignment & Closure Commission (USA: 1985-2005)</p>	<p>CSRs (UK: 1997-)</p> <p>Program Review (Canada: 1994-98)</p> <p>RGPP (France 2008)</p>

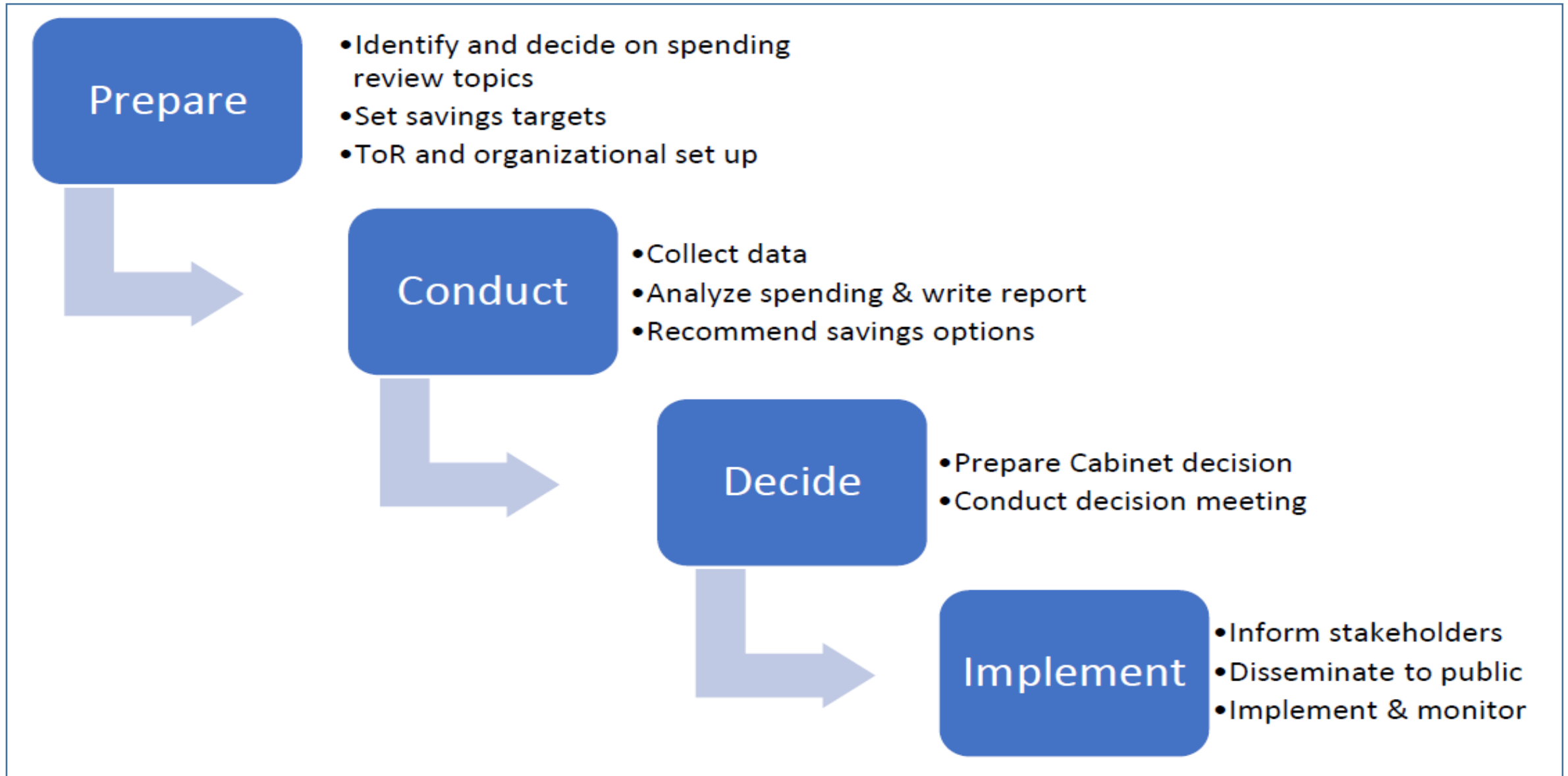
TYPOLOGY OF SPENDING REVIEWS (2)



...all of which ask the same basic questions...



PHASES OF SPENDING REVIEWS



HOW TO SET SPENDING REVIEW TOPICS (1)

Problem area: Improve effectiveness

Scenario: A government program or activity is not achieving its intended objectives

Problem area: Improve allocative efficiency

Scenario: Some budget activities are low priority/not aligned with government strategies

Problem area: Improve technical efficiency

Scenarios: a) A budget area receives unchanged/higher funding despite decreases in underlying cost drivers; b) The budget for some headings is higher than comparable headings in other entities with no obvious reason.

Problem area: Improve functional coherence

Scenario: Indications of duplicative or inefficient functions carried out by an entity

HOW TO SET SPENDING REVIEW TOPICS (2)

- **Discretionary selection** of review topics – reviewing processes, programs or agencies the efficiency and effectiveness of which is widely questioned (the Netherlands, Denmark)

versus

- **Automatic review cycle** - example: Canada (2008-2010): review of 1/3 of federal agencies each year

SPENDING REVIEW TARGETS – SOME EXAMPLES

Country	Review Process	Savings Target
Canada	Strategic Review (2008-2010)	Nominal 5% savings over 3 years
Croatia	Spending Review (2015)	10% nominal savings for 4 selected areas
France	General Review of Public Policies (RGPP)	10% real savings over 3 years
Poland	Spending Review (2015)	Annual efficiency savings reassigned to programmes
United Kingdom	Spending Review (2004)	2.5% real savings per year for departmental spending
United Kingdom	General Expenditure Review (2007)	3% real savings per year for departmental spending; 5% cut in administrative spending

Source: Bulgaria Spending Review Manual, June 2018

TYPES OF SPENDING REVIEWS

Depending on the roles of the Ministry of Finance and ministries/agencies, spending reviews are:

1/ **Bottom-up spending review**: ministries themselves identify savings options (Canada, UK, Ireland)

2/ **Joint spending review**: ministries and the MoF constitute joint review teams (the Netherlands and Denmark)

3/ **Top-down spending review**: spending review teams are composed of MoF staff or nominees (France)

Practice shows top-down approach underperforms in comparison to 1&2

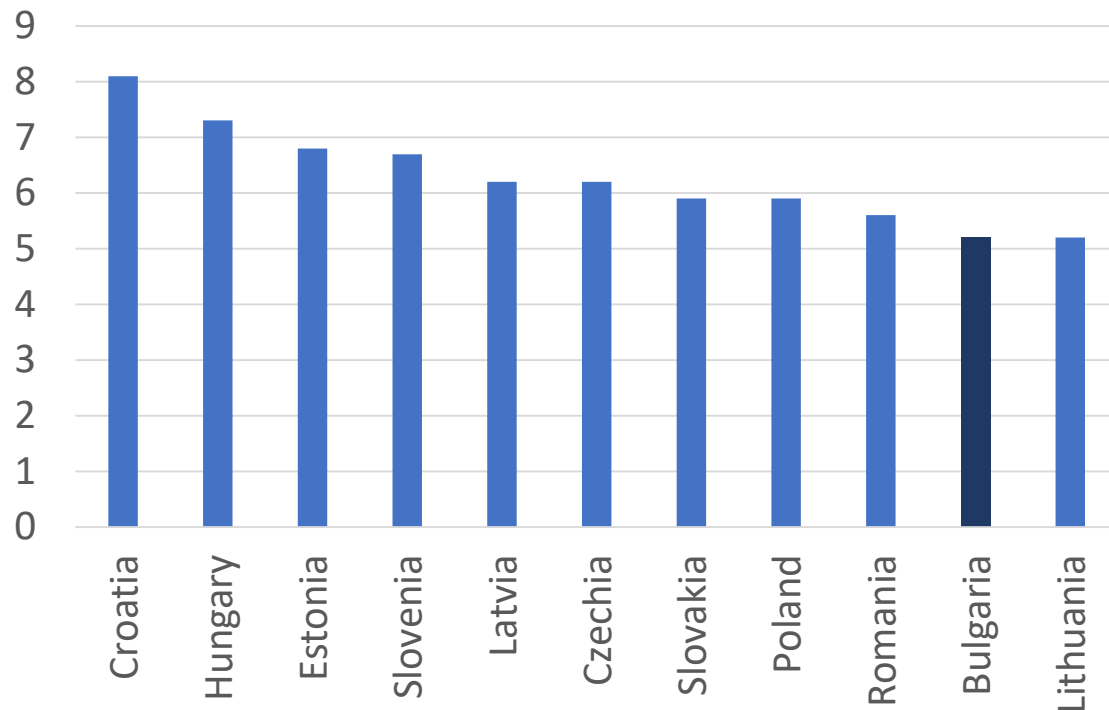
SUMMARY OF ANALYTICAL WORK FOR SPENDING REVIEWS

Problem area	Examples of possible scenarios	Types of analysis
Effectiveness	A government program or activity is not achieving its intended objectives	Desk reviews of documents Analysis of quantitative and qualitative performance data Impact evaluation
Allocative Efficiency	Activities not aligned with government strategies or policies Low socioeconomic returns of public funds	Trend analysis Profile analysis Comparing/benchmarking budget allocation/prioritization Budget composition analysis Estimating marginal returns Cost benefit analysis Cost-effectiveness analysis Cost-utility analysis
Technical Efficiency	Constant or increasing funding despite decreases in underlying cost drivers, e.g.: - decline in number of beneficiaries - simplification in the regulatory/international requirements - available new technology - new organizational models, processes or modes of service delivery The budget for a specific budget heading is higher than comparable budget headings in other entities for no obvious reason.	Data Envelopment Analysis (DEA) Budget deviation analysis Business processes review IT systems gap analysis Desk review of legal, regulatory or international requirements
Functional coherence	Indications of duplicative or inefficient functions carried out by an entity	Legal and organizational changes to streamline/eliminate/outsources/(de)centralize functions and generate savings

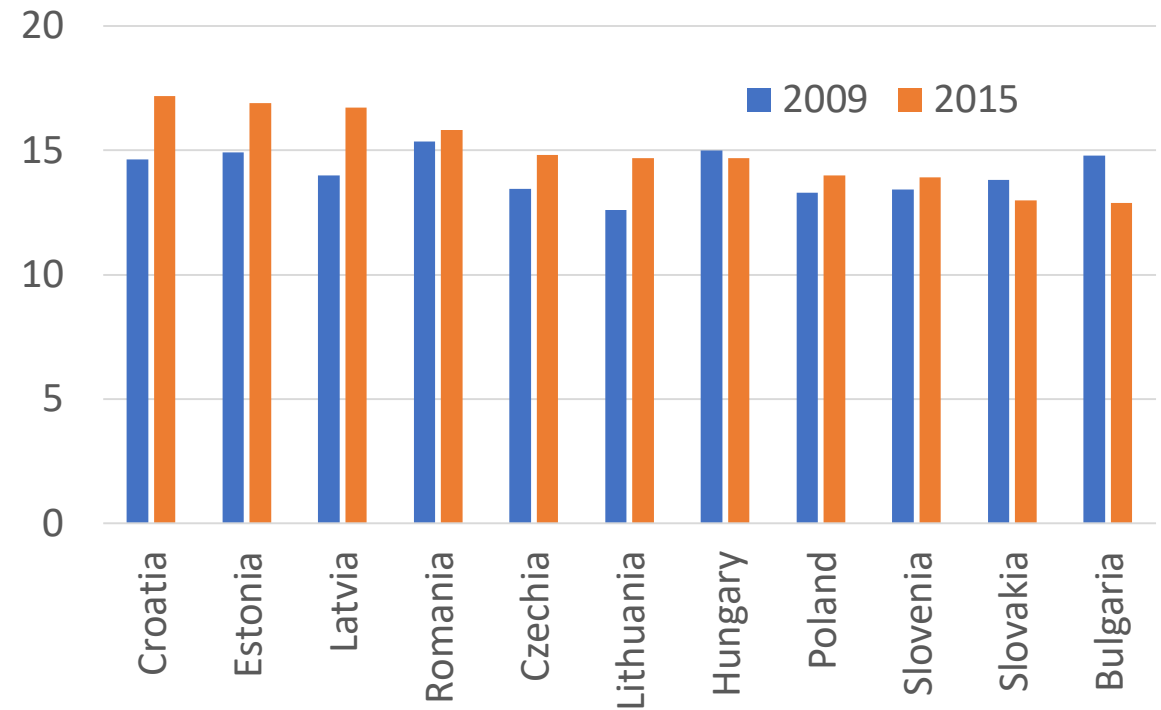
EXAMPLES OF ANALYTICAL TOOLS (1)

Profile analysis - captures expenditure at a point in time; usually presents data on expenses in absolute numbers or as shares of GDP

General government O&M spending, 2015
(% of GDP)



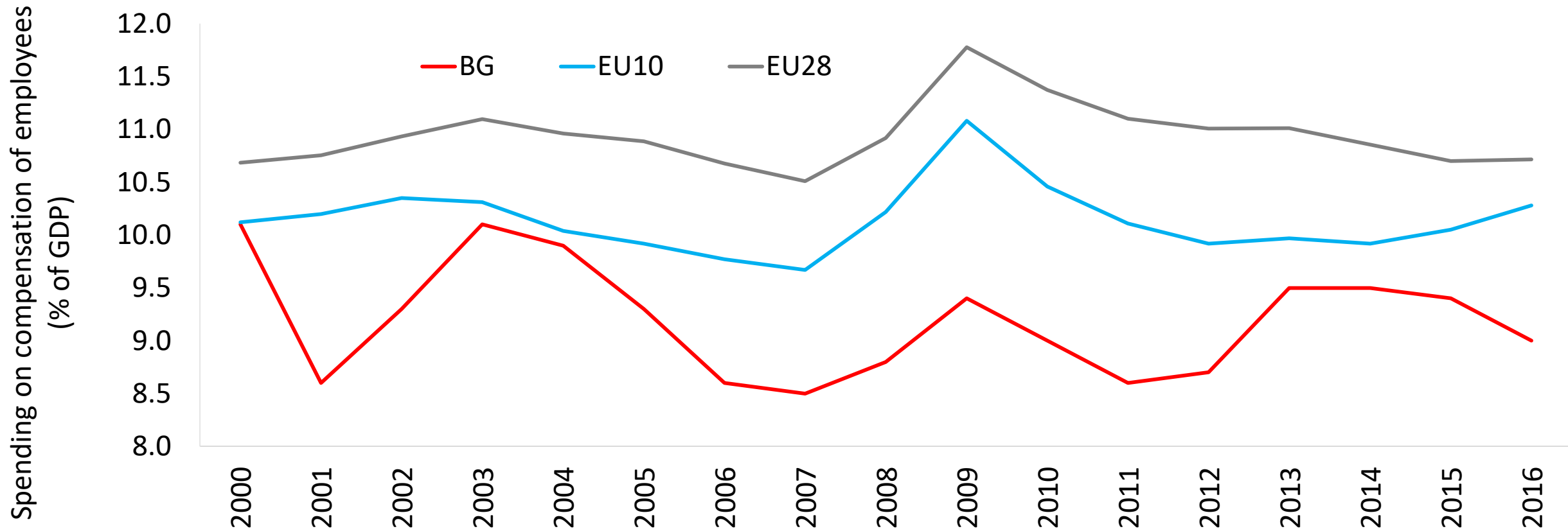
General government O&M spending in % of
total general government expenditure



EXAMPLES OF ANALYTICAL TOOLS (2)

Trend analysis – looks into dynamics over time:

General government wage bill, 2016 r.
% of GDP



EXAMPLES OF ANALYTICAL TOOLS (3)

- **Comparing/benchmarking budget allocation/prioritization:** e.g. compares unit cost across different service providers and with commercial providers
- **Budget composition analysis:** could include decomposition by functional area or priority sector, economic area, etc.
- **Estimating marginal returns:** usually employs time series analysis with the help of simultaneous equations model; estimates the various effects of government expenditure on production, inequality, poverty, etc.

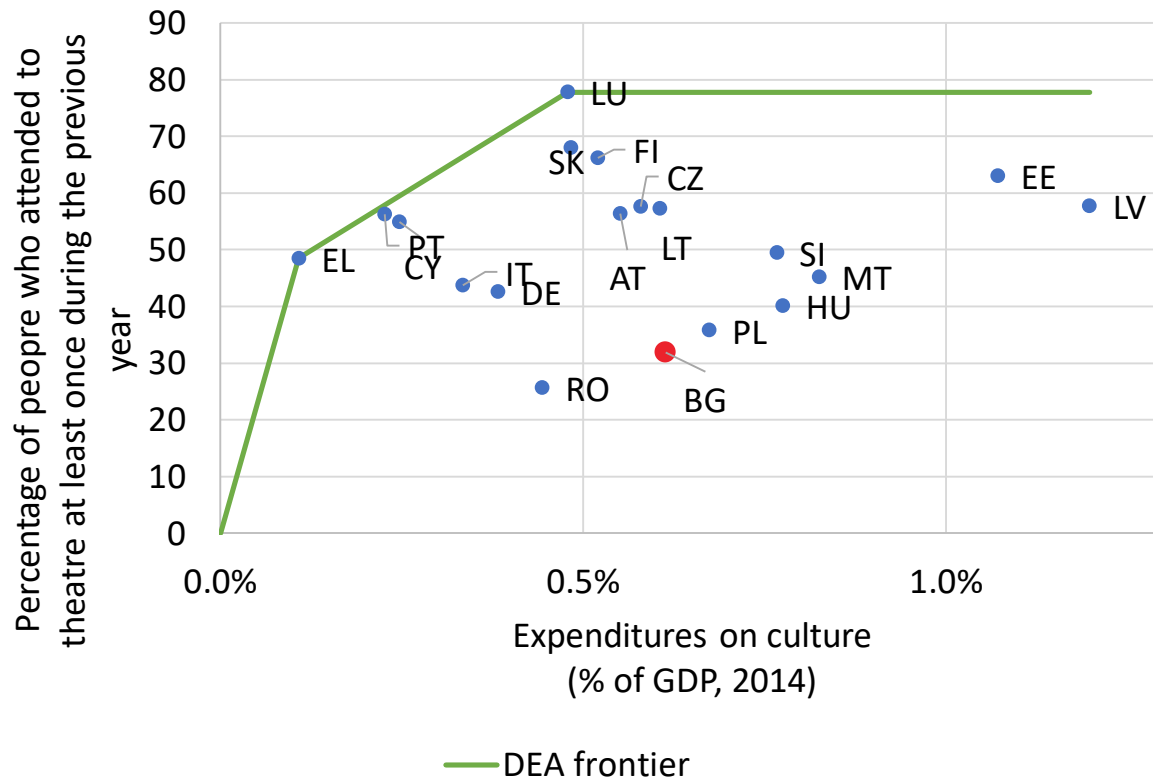
EXAMPLES OF ANALYTICAL TOOLS (4)

- **Cost-benefit analysis:** compares costs and benefits; uses NPV, IRR, B/C ratio
- **Cost-effectiveness analysis (CEA):** an alternative to CBA when the benefits cannot be expressed in monetary terms. It compares the costs of alternative ways of providing similar kinds of outputs (BGN per lives saved)
- **Cost-utility analysis (CUA):** Used for comparing the nonmonetary utility or value of programs that aim to reach the same goal. CUA uses a uniform measure of utility based on individual preferences (QALY in health sector)

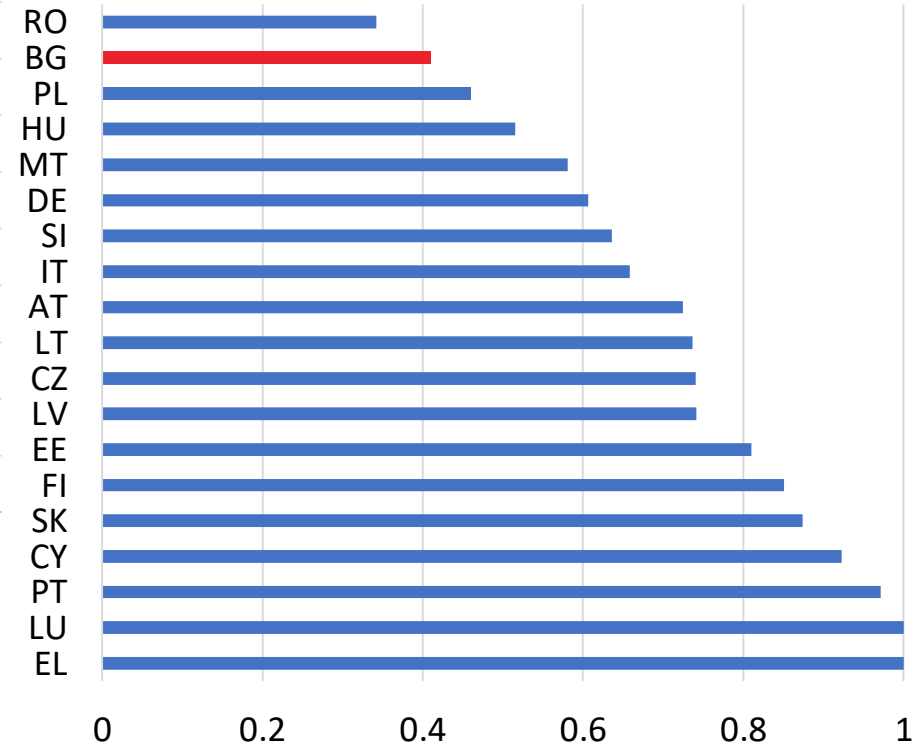
EXAMPLES OF ANALYTICAL TOOLS (5) – DATA ENVELOPMENT ANALYSIS

- **Frontier Analysis/Data Envelopment Analysis:** The productivity of a unit is evaluated by comparing the amount of output(s) to the amount of input(s) used.
- *Efficiency score* - the ratio of the weighted sum of outputs to the weighted sum of inputs
- The performance of a unit is calculated by comparing its efficiency with the best performer
- Efficiency – the distance to an efficiency *frontier* (the maximum attainable output for a given input).

EXAMPLE OF DEA WITH EXPENDITURE ON CULTURE (1)

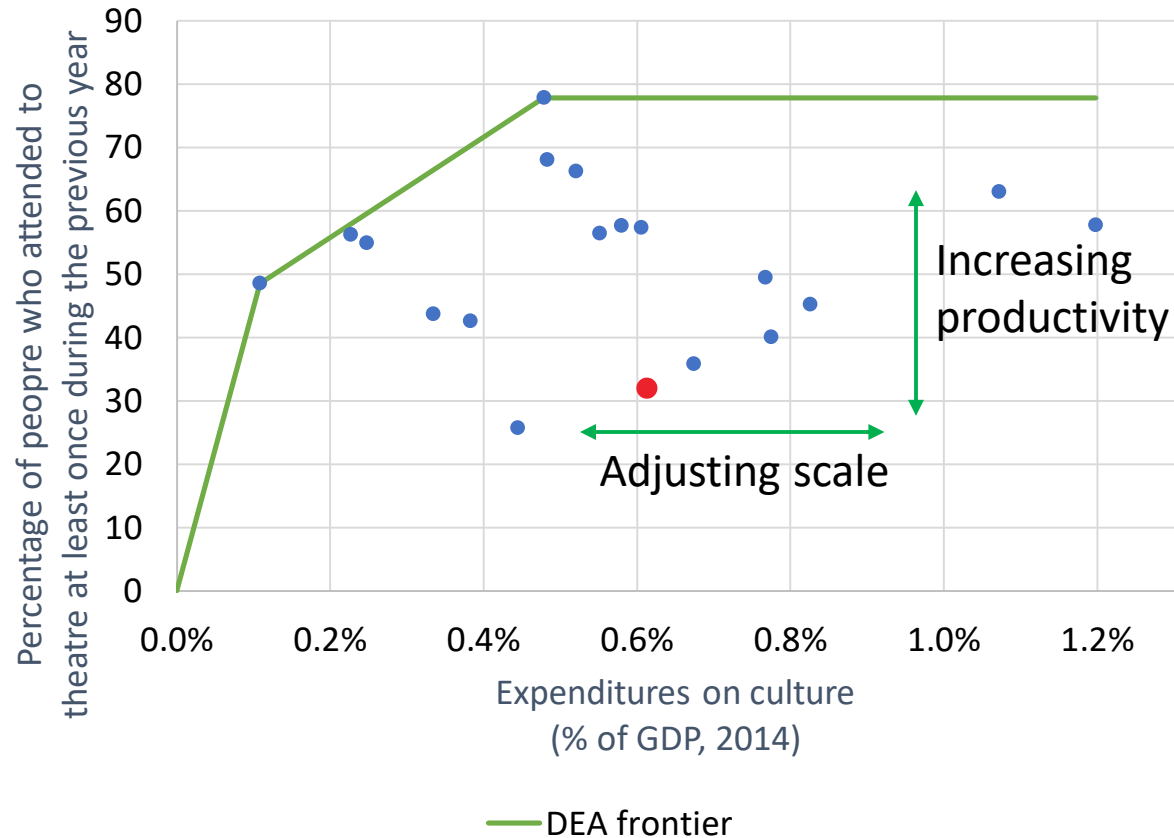


Government expenditures on culture and percentage of people who attended theatre at least once during the previous year



Efficiency score, DEA method (one input: exp., one output: percentage of people who attended theatre at least once)

EXAMPLE OF DEA WITH EXPENDITURE ON CULTURE (2)



Bulgaria	Value
Actual input	0.61%
Actual output	31.9
Frontier input	0.07%
Frontier output	77.8
Difference in input (%)	88%
Difference in output (%)	144%

If Bulgaria would be on the frontier, it could save up to 88% of current expenditures.

EXAMPLES OF ANALYTICAL TOOLS (6)

- **Budget deviation analysis:** tries to answer which budgets are over- or underspent and why
- **Business processes reviews:** breaks down processes into separate tasks, activities or steps, estimates their cost and analyzes options for simplification.
- **IT systems gap analysis:** identifies the gaps and estimate the potential efficiency gains from automation or integration of stand-alone systems

DEFINITION OF A SUCCESSFUL SPENDING REVIEW

A successful spending review is:

1. Completely independent

carried out by civil servants and external experts;
irrespective of current policies and views of policy makers



2. Connected

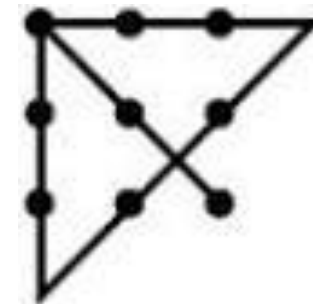
ongoing part of budget preparation process



3. Creative

thinking out of the box

using many ways to gather information (expert meetings, study visits, international comparisons, etc)



SOME TIPS FOR SUCCESSFUL SPENDING REVIEWS (1)

- Make spending reviews a routine part of the annual budget process
- Integrate the spending review into the budget calendar
- Perform narrow/specific spending reviews each year; resort to comprehensive reviews only in need of dire spending cuts across the board
- Keep the review focused on identifying savings options; do not set multiple goals

SOME TIPS FOR SUCCESSFUL SPENDING REVIEWS (2)

- Involve line spending ministries/agencies in review teams (bottom-up/joint reviews)
- Responsibility for identifying savings options should lie with the civil service; nevertheless, use external expertise where this could be appropriate
- Set clear targets for comprehensive reviews (i.e. reduce current expenditure by X%)
- Set terms of reference with clear questions/criteria to be followed by review teams

BULGARIA'S EXPERIENCE WITH SPENDING REVIEWS TO DATE

- June 2017: Preparatory work
 - **Benchmarking of spending patterns in Bulgaria** (WB reports on setting the stage, the efficiency of public pay, institutional analysis of public employment, efficiency of O&M spending, conceptual framework)
- May-June 2018
 - **Police and firefighting spending review**
 - **Improving efficiency and effectiveness of waste management**
 - **SR Manual**

RECENT CEE EXPERIENCE WITH SPENDING REVIEWS

Poland:

- Low Income Family Spending Review (selective, value for money)
- LTC Spending Review in Pomorskie Region (selective, value for money)

Croatia:

- Comprehensive Spending Review (main spending categories, saving)

Slovakia:

- Expenditure Review for Education (selective, value for money)
- Spending Review of Labour Market and Social Policies (selective, value for money)

Romania:

- Public Finance Review (public finance and revenue administration function across the Government of Romania, value for money)

WORLD BANK SUPPORT

1. Methodology and organization of design
 - Work with MOF (Central Committee) and Joint Working Group (JWG) to design framework and TOR
2. Conduct of SR
 - Support analysis with data, tools, analytical work
3. Support of the SR Committees to review output
4. Lesson Learning