SPENDING REVIEW FRAMEWORK
APPLICATION FOR BULGARIA

THE WORLD BANK

• Sofia
June 19, 2019
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
• **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
### 4 basic spending review models:

<table>
<thead>
<tr>
<th>FREQUENCY</th>
<th>SCOPE</th>
<th>DESCRIPTION</th>
<th>Location &amp; Date</th>
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</thead>
<tbody>
<tr>
<td>Annual</td>
<td>Targeted</td>
<td>Lapsing Reviews</td>
<td>(Australia: 2004-)</td>
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<td></td>
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<td>Program Evaluations</td>
<td>(Korea: 2006-)</td>
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<td></td>
<td>Comprehensive</td>
<td>Zero Base Budgeting</td>
<td>(USA: 1970s)</td>
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<td></td>
<td>Activity-Based Costing</td>
<td>(USA: 1980s)</td>
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<tr>
<td>Periodic</td>
<td>Targeted</td>
<td>Value for Money Reviews</td>
<td>(Various NAOs)</td>
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<td>Base Realignment &amp; Closure Commission</td>
<td>(USA: 1985-2005)</td>
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<td></td>
<td>Comprehensive</td>
<td>CSRs</td>
<td>(UK: 1997-)</td>
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<td></td>
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<td>Program Review</td>
<td>(Canada: 1994-98)</td>
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<td></td>
<td></td>
<td>RGPP</td>
<td>(France 2008)</td>
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</table>
Topics of spending reviews

Programme Reviews
- aimed at strategic savings
- aimed at efficiency savings

Process Reviews
- procurement processes
- HR management practices
- IT systems and practices

Agency Reviews
- Ministry
- Agency

Horizontal Review

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

1. What do we do?
2. What are people's needs and expectations?
3. Do we need to continue to do it?
4. Who should do it?
5. How can we do this better and for less money?
6. Who should cover the costs?
7. How should we go about change?
PHASES OF SPENDING REVIEWS

Prepare
- Identify and decide on spending review topics
- Set savings targets
- ToR and organizational set up

Conduct
- Collect data
- Analyze spending & write report
- Recommend savings options

Decide
- Prepare Cabinet decision
- Conduct decision meeting

Implement
- Inform stakeholders
- Disseminate to public
- Implement & monitor
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

Source: Bulgaria, Spending Review Manual, June 2018
• **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

<table>
<thead>
<tr>
<th>Country</th>
<th>Review Process</th>
<th>Savings Target</th>
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<tbody>
<tr>
<td>Canada</td>
<td>Strategic Review (2008-2010)</td>
<td>Nominal 5% savings over 3 years</td>
</tr>
<tr>
<td>Croatia</td>
<td>Spending Review (2015)</td>
<td>10% nominal savings for 4 selected areas</td>
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<tr>
<td>France</td>
<td>General Review of Public Policies (RGPP)</td>
<td>10% real savings over 3 years</td>
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<tr>
<td>Poland</td>
<td>Spending Review (2015)</td>
<td>Annual efficiency savings reassigned to programmes</td>
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<tr>
<td>United Kingdom</td>
<td>Spending Review (2004)</td>
<td>2.5% real savings per year for departmental spending</td>
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<tr>
<td>United Kingdom</td>
<td>General Expenditure Review (2007)</td>
<td>3% real savings per year for departmental spending; 5% cut in administrative spending</td>
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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
<table>
<thead>
<tr>
<th>Problem area</th>
<th>Examples of possible scenarios</th>
<th>Types of analysis</th>
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<tbody>
<tr>
<td>Effectiveness</td>
<td>A government program or activity is not achieving its intended objectives</td>
<td>Desk reviews of documents</td>
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<td>Analysis of quantitative and qualitative performance data</td>
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<td>Impact evaluation</td>
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<td>Allocative Efficiency</td>
<td>Activities not aligned with government strategies or policies</td>
<td>Trend analysis</td>
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<td>Low socioeconomic returns of public funds</td>
<td>Profile analysis</td>
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<td>Comparing/benchmarking budget allocation/prioritization</td>
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<td>Budget composition analysis</td>
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<td>Estimating marginal returns</td>
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<td>Cost benefit analysis</td>
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<td>Cost-effectiveness analysis</td>
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<td></td>
<td></td>
<td>Cost-utility analysis</td>
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<tr>
<td>Technical Efficiency</td>
<td>Constant or increasing funding despite decreases in underlying cost drivers, e.g.:</td>
<td>Data Envelopment Analysis (DEA)</td>
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<td>- decline in number of beneficiaries</td>
<td>Budget deviation analysis</td>
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<td>- simplification in the regulatory/international requirements</td>
<td>Business processes review</td>
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<td>- available new technology</td>
<td>IT systems gap analysis</td>
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<tr>
<td></td>
<td>- new organizational models, processes or modes of service delivery</td>
<td>Desk review of legal, regulatory or international requirements</td>
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<td>The budget for a specific budget heading is higher than comparable budget headings in other entities for no obvious reason.</td>
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<tr>
<td>Functional coherence</td>
<td>Indications of duplicative or inefficient functions carried out by an entity</td>
<td>Legal and organizational changes to streamline/eliminate/outsource/(de)centralize functions and generate savings</td>
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</tbody>
</table>
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

Spending on compensation of employees (% of GDP)
• **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)
**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).
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)

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

### Bulgaria

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
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<tbody>
<tr>
<td>Actual input</td>
<td>0.61%</td>
</tr>
<tr>
<td>Actual output</td>
<td>31.9</td>
</tr>
<tr>
<td>Frontier input</td>
<td>0.07%</td>
</tr>
<tr>
<td>Frontier output</td>
<td>77.8</td>
</tr>
<tr>
<td>Difference in input (%)</td>
<td>88%</td>
</tr>
<tr>
<td>Difference in output (%)</td>
<td>144%</td>
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</tbody>
</table>
• **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
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
• 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)
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