



INTERNATIONAL MONETARY FUND

Fiscal Affairs Department



SLOVAKIA

Spending Review Management

Richard Hughes

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INTRODUCTION

1. The Slovak Ministry of Finance (MoF) has initiated a program of spending reviews to improve the efficiency and effectiveness of public expenditure and meet their medium-term objective of restoring the general government finances to balance or surplus. The authorities plan on a rolling series of policy and thematic reviews covering around one-quarter of central government spending each year, with the aim of covering the whole of central government over the four-year parliament. The exercise was kicked off in Autumn 2015 with a set of pilot reviews due to report in March 2016. Based on experience from the pilots, the first full reviews are expected to be launched immediately after the general election in March 2016.

2. The MoF has sought to learn from international experience in the design of their spending reviews. The MoF has earmarked over €5 million to pay for advice both on the overall management of the review process and in the conduct of specific reviews. The Fund's support to the MoF began with a one-day workshop in Bratislava on lessons from experience with spending reviews in November 2015. This report summarizes the findings and recommendations of the second stage in this engagement: a one-week visit to Bratislava in February 2016 to assist the MoF with the design, organization, and management of the first full round of spending reviews to be launched publically in April 2016.

3. Based on a week of discussions with MoF officials and others involved in planning of Slovakia's spending review during the period 1-5 February 2015, this report provides:

- i. **reflections on spending review preparations** and the first pilot reviews;
- ii. **advice on the management of the first full round of spending reviews**, including the timetable, organization, guidance, and outputs of the exercise;
- iii. **proposed next steps in IMF support** for the spending review process in Slovakia; and
- iv. **links to further resources on which to draw** in the design and conduct of Slovakia's spending reviews.

I. REFLECTIONS ON SPENDING REVIEW PREPARATIONS AND PILOTS

A. Strong Foundations for the Review

4. Slovakia has established a strong foundation on which to launch their spending review process. Many of the key elements of a successful expenditure review exercise are already in place including:

- **a clear medium-term fiscal and expenditure objective for the exercise.** In its 2016 Budget, the government committed to achieving general government structural balance by 2017, overall balance by 2018, and surplus by 2019. Of the €2 billion in deficit-reduction required to reach these objectives over the next three years, it is expected that €1 billion will come from expenditure reductions. Thus, the spending review needs to deliver approximately 3 percent nominal savings on just over €30 billion of general government expenditure over

the next three years. This provides review teams with a clear understanding of the minimum level of savings that need to be found from each review.

- **Strong analytical capacity at the center of government.** While analytical capacity in most line ministries is relatively weak, the reviews can draw on a highly skilled and motivated group of economists and policy analysts employed by the Institute for Financial Policy in the MoF and the Government Office under the Prime Minister. The MoF has also secured €5 million in EU structural funds to pay for outside consultants to support the work of the review teams.
- **Established areas of focus.** Given limited analytical capacity in line ministries, the MoF has opted for a rolling series of policy and thematic reviews over the next four years with each round covering at least 25 percent of central government expenditure. Pilot reviews of schools, employment offices, and tax administration were launched in October 2015 and are due to report in March 2016. The first official round of reviews covering health, transport, and ICT expenditure are due to be launched following the general election in March 2016 and report in time for the 2017 Budget in September. This rolling approach allows the MoF to target its central analytical resources on the areas under review.
- **Sound budgetary infrastructure.** Since the early 2000s, Slovakia has published multi-year expenditure projections by ministry and by program as part of the annual budget documentation. Budgets also separately present a baseline or no policy change (NPC) forecast for expenditure and estimate of the cost/yield of new policy measures. Finally, each program has attached to it a set of performance targets. All of these elements are critical to capturing and monitoring the medium-term financial and operational implications of the expenditure reviews.
- **Realistic timetable.** Based on an early April launch, the government would have approximately nine months to conduct the reviews, discuss and agree their recommendations, reflect their expenditure impact in the 2017 Budget, and enact the necessary legislative and administrative changes before the start of 2017. While this is a tight timescale by international standards, it should be sufficient for a targeted set of reviews.

A. Current Challenges for the Review

5. However, the pilot phase of the review has also highlighted some organizational challenges that need to be addressed before the launch of the first formal round of reviews in April. Experience from the schools, employment offices, and tax administration pilots highlights the following issues that need to be addressed prior to the public launch of the first full reviews:

- **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

round of reviews, steer the review process, and discuss and endorse the review recommendations before they are presented to Cabinet and Parliament.

- **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 progress due to problems in acquiring the necessary data and limited operational knowledge of the subject. Given that line ministries will have to play a key role in the implementation of the recommendations of the reviews, it is important that they are bought into the process from the beginning. Future reviews should therefore be led by joint line ministry-MoF teams, even if the bulk of the analysis is done by the MoF.
- **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 has so far focused on comparing administrative costs between different local tax offices, but not considered the alignment between the national-wide compliance effort and the compliance gaps for different taxes. Similarly, the labor policy review has so far focused on comparing activity levels across employment offices, rather than considering whether active labor market policy interventions were effectively targeting the most expensive clients (long-term unemployed) from the perspective of the public finances as a whole (both benefits and foregone taxes).
- **Moving from analysis to recommendations.** Given limited time available, review teams need to resist the temptation to continue to deepen their analysis rather than extract policy recommendations. The schools review has made the most progress of the three teams by benchmarking the efficiency of schools across Slovakia. However, this is only the first step in four step review process which also needs to include: (ii) understanding what drives different levels of cost per pupil (e.g. size, energy efficiency, charging for facilities, procurement), (iii) estimating how much could be saved from generalizing best practice (likely a fraction of the total difference in cost), and (iv) identifying how to extract those savings (e.g. setting a minimum school size, mandating a single energy tariff for all schools, requiring all schools to contract out maintenance).
- **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

driving the necessary operational reforms. The penalty for those ministries that fail to adhere to their multi-year budgets can be a requirement to undergo another round of review to identify offsetting savings.

- **Tracking reform implementation.** Once review teams have made their recommendations, they will need to identify metrics for evaluating whether the recommendations are being implemented and expenditure efficiency is improving. While MoF has required all ministries to set performance targets for each expenditure program since the early 2000s, these targets have been increasingly neglected in recent years and no longer appear in budget 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.

III. MANAGING THE FIRST FULL ROUND OF SPENDING REVIEWS

To assist the MoF with the launch of the first full round of spending reviews, this section provides guidance on four aspects of spending review management, including the:

- a. **timetable for the exercise** over the course of 2016;
- b. **organization of the review process** at both ministerial and official level;
- c. **guidance for spending review teams** on the conduct of the individual reviews; and
- d. **outputs of the review** at different stages of the process.

A. Spending Review Timetable

6. A suggested timetable for the spending review process over the course of 2016 is set out below. Summarized in Table 1, the timetable divides the process into four phases and highlights the main activities at outputs at each stage. These are:

- i. **Preparation Phase (January-February):** During these two months, the MoF should update its macroeconomic and fiscal forecast, specify the targeted level of savings from the review, identify the review areas, organize the review teams, and issue guidance for the review process. To signal the government's commitment to the process and inform parliament and the public about the broad parameters for the reviews, the updated forecast, savings target, and terms of reference for the reviews should be published in a Spending Review Launch Document alongside Slovakia's Stability Program in April. An annotated outline for this Launch Document is provided in Section III.D.
- ii. **Review Phase (March-June):** During these four months, the MoF should update its baseline NPC forecast for all ministries and programs while the review teams analyze the efficiency and effectiveness of expenditure in their areas, evaluate different reform options, estimate the potential savings or cost of those reforms, and make recommendations. The findings, recommendations, and associated savings/costs should be included in the draft report of each spending review which should accompany the relevant ministry's budget submission in

late June, an annotated outline of which is also provided in Section III.D.

- iii. Decision Phase (July-August):** During these two months, MoF should hold technical meetings with the line ministries to scrutinize the analysis, recommendations, and costings of the reviews and prepare the ministerial discussions. The PM, MoF, and relevant Line Ministers should then meet to discuss the review recommendations and decide which to put forward to Cabinet for approval as part of the budget. Approved recommendations should then be incorporated into the Budget projections based on costings agreed at the technical meetings. The output of this process would be a final Spending Review Report summarizing their analysis, recommendations, associated savings/costs, and performance targets for tracking implementation. An annotated outline of this report is also provided in Section III.D.
- iv. Implementation Phase (September-December):** During these four months, the MoF should present the Budget proposal to Parliament while relevant line ministries prepare Action Plans for the implementation of their review recommendations. These Action Plans should set out the legal amendments, administrative reforms, and workforce changes together with a timetable for their implementation and be submitted to and approved by the MoF by end December.

Table 1: Spending Review Timetable

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

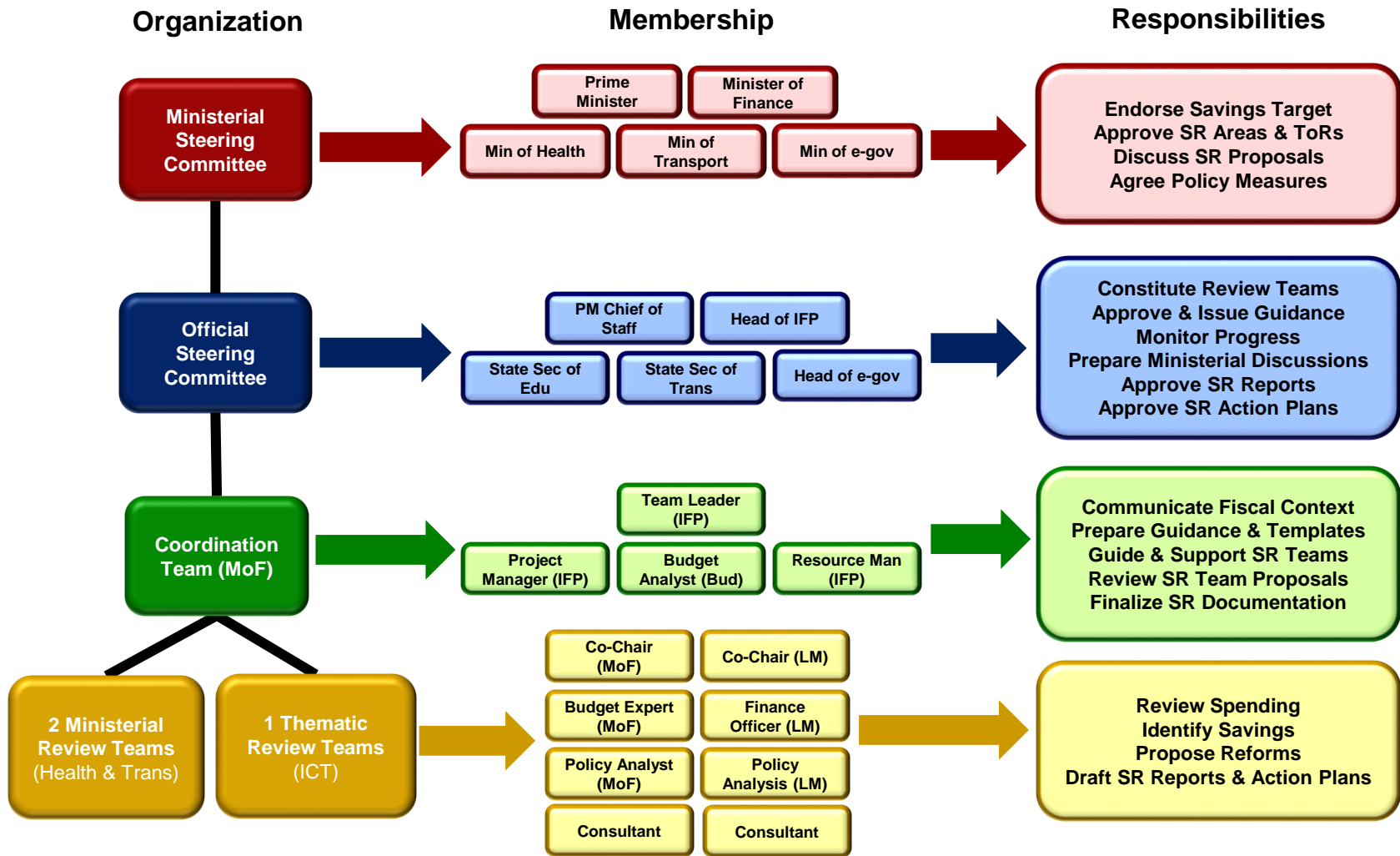
* Published

B. Organization of the Review Process

7. **The spending review exercise should be organized in a manner which combines political leadership from the PM, technical oversight from the MoF, and operational ownership by Line Ministries.** A proposed organization chart for the spending review and membership and responsibility of each body is set out in Figure 1. This proposal envisages a four-tier structure comprised of:

- A **Ministerial Steering Committee** comprised of the Prime Minister, Minister of Finance, and Line Ministers involved in this review round. This committee should meet in late March prior to the launch of the review process to endorse the savings target for the reviews, approve review areas and terms of reference, and sign-off on the Spending Review Launch Document. The Committee should meet again in July to discuss the findings of the reviews, approve their recommendations, and discuss the communication of their conclusions.
- An **Official Steering Committee** comprised of the PM's Chief of Staff, Head of the IFP, and Line Ministry State Secretaries for each of the policy areas concerned. This Committee should meet regularly throughout the spending review process to constitute the review teams, approve and issue spending review guidance, monitor progress of the reviews, prepare for ministerial discussions, and approve the final Spending Review Reports and Action Plans.
- A **Coordination Team** within the Ministry of Finance comprised of a Team Leader and at least one Project Manager, Budget Analyst, and Resource Manager. The Team's role should be to communicate the fiscal context for the exercise, prepare the guidance and templates to be used by the review teams, advise and support the review teams throughout the review process, review the teams' proposals before they are submitted to the Official Steering Committee, and finalize all spending review documentation for publications.
- A **Review Team** for each policy or thematic area comprised of Line Ministry and MoF officials. The teams' roles are to evaluate the spending in their areas, identify opportunities for improving efficiency or effectiveness, propose reforms, and prepare the Spending Review Reports and Action Plans.

Figure 1: Governance of the Spending Review Process



C. Spending Review Guidance

8. **To guide the work of the Review Teams, the MoF Coordination Team should prepare guidance for the review process.** The Spending Review Guidance should provide:

- **Background** on the context and objectives for the spending review.
- **Organization** of the review process including the membership and roles of the various committees and teams, responsibilities of the Review Team, and timetable for the exercise.
- **Content of Spending Review Reports** to be prepared by the Review Teams, submitted in draft alongside the ministry's budget requests, and published alongside the Budget proposals. More detail on the content of the Spending Review Report can be found in Appendix I and a template is provided in Annex I.
- **Technical parameters** to be used by Review Teams in the conduct of their reviews. This includes the assumptions to be used in constructing the baseline NPC forecast for expenditure, methodology for calculation savings from the various reforms, and guidance on how to capture financial implications for other ministries or local governments.

D. Spending Review Outputs

9. **Under the process described above, the Spending Review would produce two main published outputs at the start and conclusion of the review process.** These are the:

- **Spending Review Launch Document** to published at the outset of the review in early April; and
- **Spending Review Reports** summarizing the finding and recommendations of each review at their conclusion in September.

This section provides annotated outlines for these two documents. The timetable in Section I also envisages the production of internal Spending Review Action Plans, a template for which will be provided by a subsequent IMF mission.

Spending Review Launch Document

10. **The Spending Review Launch Document should be a short (15-20 page) document setting out the background, process, and focus of the review.** It should include an overview of the:

- **Fiscal Context** for the review, including the government's fiscal objective of returning the general government finances to surplus by 2019, policy ambitions and their implications for government revenue and expenditure, and targeted level of savings required from the review (€1 billion over three years).
- **Spending Review Process** including (i) the objectives of the exercise (meeting the government's fiscal objectives, releasing resources for new priorities, and improving public

services for citizens); (ii) how the reviews build on past reforms (medium-term budgeting, program and performance budgeting, and pilot reviews); and (iii) the organization, timetable, and outputs of the exercise.

- **Review Areas** including (i) the intention to cover all ministries by 2020; (ii) announcement of the topics of the first round of reviews (Health, Transport, and ICT); and (iii) Terms of Reference for the reviews. The Terms of Reference should set out for each review the (i) objectives of evaluation; (ii) ministries, agencies, programs, or services involved; (iii) total expenditure covered; (iv) key questions to be addressed; and (v) ministers and senior officials responsible.

Spending Review Reports

11. The Spending Review Reports should be submitted in draft alongside ministries' budget submissions in late June and published in final form alongside the Budget proposal in September. These reports should provide a summary of the:

- **Areas of Focus** of the review which may be a combination of programs (e.g. road maintenance), agencies (e.g. Employment Offices), and themes (e.g. school size).
- **Main Findings** of the review in each area which may concern the relative efficiency of different modes of delivery (e.g. the private sector is 50 percent more efficient at maintaining roads), service configurations (e.g. schools with fewer than 150 students have higher costs and worse outcomes than larger schools), or management strategies (e.g. employment advisors spending 80 percent of their time on clients which account for less than 20 percent of welfare expenditure and foregone taxes).
- **Recommendations** of the review in each area together with their associated savings or costs in each year over the next four years. The recommendations could include changes in the mode of deliver (e.g. contracting out of roads maintenance to the private sector), reconfiguration of services (e.g. phasing out of schools with fewer than 150 students together with a new busing program to transport them to larger schools), or reforms to management practices (e.g. introducing welfare cost-weighted performance management for advisors working in Employment Offices).
- **Performance Targets** in each area to be used to drive and monitor the implementation of the review recommendations over the medium-term. Taking the examples of the above reviews, these could include targeting 50 percent of all roads being maintained by the private sector by 2020, a 75 percent reduction in schools with fewer than 150 pupils by 2020, or a 10 percent fall in the number of long-term unemployed by 2020.

III. NEXT STEPS IN IMF SUPPORT

12. The IMF, together with its partners in the EC and OECD, stands ready to continue supporting the Slovak MoF in both the management of the spending review process and conduct of individual spending reviews. This further support could include:

- **May 2016: A joint IMF-EC-OECD mission** to provide analytical support to the health and transport review teams and discuss the format and content of Spending Review Reports and Action Plans
- **November 2016: A joint IMF-EC-OECD mission** to review lessons from the first full round of spending reviews and design the second round of review to be launched in 2017
- **Ongoing: Remote support** from IMF headquarters to address any practical questions that arise during the review process.

The EU's new Structural Reform Support Services may be in a position to finance both IMF and EC support to the spending review process from summer 2016. In the meantime, the costs of the May mission would need to be shared between the IMF (IMF staff travel) and EC (EC staff travel and all expert costs).

IV. FURTHER RESOURCES ON SPENDING REVIEWS

UK Spending Reviews (2007-2015)

<https://www.gov.uk/government/publications/pre-budget-report-and-comprehensive-spending-review-2007>

<http://www.gov.uk/government/publications/spending-review-2010>

<http://www.gov.uk/government/topical-events/autumn-statement-and-spending-review-2015>

Eddington Review of Transport (2007)

<http://webarchive.nationalarchives.gov.uk/20090104005813/http://www.dft.gov.uk/about/strategy/transportstrategy/eddingtontstudy/>

Carter Review of Health (2015)

<http://www.gov.uk/government/publications/productivity-in-nhs-hospitals>

UK Government ICT Strategy (2011)

http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/266169/govt-ict-sip.pdf

US Government Guidance on Budget Estimates (2016)

http://www.whitehouse.gov/omb/circulars_a11_current_year_a11_toc

Ireland Comprehensive Review of Expenditure (2011)

<http://www.per.gov.ie/en/comprehensive-review-of-expenditure/>

Canada Strategic Reviews (2012)

<https://www.tbs-sct.gc.ca/sr-es/index-eng.asp>

APPENDIX: ANNOTATED OUTLINE FOR SPENDING REVIEW GUIDANCE

I. SPENDING REVIEW BACKGROUND, CONTEXT, AND OBJECTIVES

A. Background on the Spending Review Process

- i. Government has launched a rolling program of spending reviews. Each round of reviews will focus on a subset of government programs or cross-cutting themes or activities.
- ii. Each round of reviews will cover at least $\frac{1}{4}$ of general government expenditure and all ministries and programs by the end of the four year parliament
- iii. 2016 reviews will focus on health, transport, and ICT expenditure which accounts for X percent of total central government expenditure in 2016.

B. Fiscal Context for the Spending Review

- i. Government's fiscal objective is to return the general government finances to surplus by 2019
- ii. This will require a €2 bn reduction in general government borrowing over the next 3 years, of which half is expected to come from revenue increases
- iii. The spending reviews will be responsible for delivering the remaining €1 bn of deficit reduction over the next 4 years, which is equivalent to a nominal savings of at least 3 percent of total general government expenditure by 2019.

C. Spending Review Objectives

- i. The aim of the spending reviews is to evaluate the efficiency and effectiveness of government expenditure
- ii. Based on this analysis, reviews should identify legal, policy, and administrative reforms to improve value for money from public expenditure and thereby improve public services for citizens, release resources for reallocation to new priorities, and meet the government's fiscal objectives.
- iii. To ensure the government's overall fiscal targets are met and ensure equal burden-sharing across government, all reviews must identify net cashable savings of at least 3 percent of total expenditure in their areas by 2019.

II. SPENDING REVIEW TIMETABLE, MANAGEMENT, AND OUTPUTS

A. Spending Review Timetable

[INSERT TABLE 1]

B. Spending Review Management

- i. Spending review process will be overseen by a Ministerial Steering Committee comprised of PM, MoF, and relevant Line Ministers and managed by an Official Steering Committee comprised of their official deputies

- ii. Individual reviews will be led by joint Line Ministry-MoF Review Teams responsible for evaluating expenditure in their areas, identifying opportunities for improving efficiency, proposing reforms to realize those efficiencies, and estimating savings associated with those reforms. Review Teams should submit their proposals in the form of a draft Spending Review Report by **June 30, 2016**.
- iii. The Review Team's proposals will be reviewed by the Official Steering Committee before being presented to the Ministerial Steering Committee for discussion by **July 31, 2016**.
- iv. Once approved by the Ministerial Steering Committee, the Review Proposals will be submitted to Cabinet for final approval by **August 15, 2016**.
- v. Agreed Final Spending Review Reports will then be submitted to Parliament alongside the 2017 Budget in **September 2016**. The budgetary implications of their recommendations will be incorporated into the budget requests of the relevant ministries and programs.
- vi. Review Teams will prepare internal Action Plans for implementation of their recommendations by **December 2016**, for which guidance will be provided later.

C. Spending Review Output

- i. Review Teams findings and recommendations should be contained in a Spending Review Report summarizing the scope, findings, recommendations and associated savings/costs, and performance targets.
- ii. Spending Review Reports should be no more than 20 pages, submitted in draft to the Official Steering Committee for review by June 30, 2016, and published alongside the 2017 Budget in September 2016.
- ii. A template for the Spending Review Report is provided in Annex I.

D. Technical Parameters

- i. 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.
- ii. Forecasts should be based on the MoF's official macroeconomic forecast from February 2016
- iii. Savings should be calculated against the baseline NPC projections and separately identify any additional costs associated with the realization of those savings.
- iv. Review teams should only propose additional spending measures which are directly associated with the realization of savings and fraction (no more than 30%) of the savings to be realized..
- v. Savings net of implementation costs should exceed 3% of total expenditure in 2016 in each review area.
- vi. Savings should be "cashable", meaning they should enable total expenditure to be reduced in that area at the time of realization.

ANNEX I: SPENDING REVIEW REPORT TEMPLATE

I. Areas of Focus

- A. What areas of expenditure are the focus of this review?
- B. What ministries, programs, and agencies are covered by this review?
- C. How much expenditure is covered by this review?

II. Key Findings

- A. What questions did the review consider in each area of focus?
- B. What methodology did the review use to answer these questions?
- C. What were the main findings of the evaluation of expenditure in each area of focus?

III. Recommendations

- A. What reforms are recommended to improve value for money in each area?
- B. How much would each reform save over the next four years (see Table A)?
- C. What costs are associated with the realization of these savings (see Table A)?
- D. What legal, organization, or operational changes are required?

IV. Performance Targets

- A. How is progress in implementing these reforms to be measured?
- B. What should the targeted level of performance be by 2020?

Table A: Spending Review Recommendations: Financial Impact

| Review Area | 2016 | 2017 | 2018 | 2019 | % change (2016-19) |
|--------------------------------|------------|------------|------------|------------|-----------------------|
| Schools | | | | | |
| Baseline Forecast (NPC) | 100 | 105 | 110 | 115 | 15% |
| Recommendations | | | | | |
| 1. Minimum school size of 150 | | -1 | -6 | -8 | |
| 2. Single energy tariff | | -1 | -1 | -1 | |
| 3. Maximize charging | | -2 | -2 | -2 | |
| 4. School busing | | +1 | +2 | +3 | |
| Net Saving* | | -3 | -7 | -8 | 8.0% |
| Post-Reform Forecast | 100 | 102 | 103 | 107 | 7.0% |

* All reviews must deliver at least 3 percent net savings over the three years from 2016-19.