

Box E: Spending Reviews¹

This Box discusses the approach to spending reviews in the Irish context and the lessons to be learned from international best practice. Spending reviews are a mechanism by which savings can be achieved through examination of baseline expenditure (Robinson, 2013). An effective spending review provides a means of assessing ongoing expenditure to assess sustainability in view of increasing spending pressures due to demographic pressures and the increasing cost of provision of public services (Baumol's disease) (IMF, 2014, Howlin et al., 2016).²

Recent Spending Reviews in Ireland

Three spending reviews have been conducted in Ireland since 2008: the 2009 *Report of the Special Group on Public Service Numbers and Expenditure Programmes* (Department of Finance, 2009); the *Comprehensive Review of Expenditure (CRE) 2012-2014* (Department of Public Expenditure and Reform, 2011); and the *CRE 2015-2017* (Department of Public Expenditure and Reform, 2014). The *CRE 2012-2014* established that spending reviews should take place on a periodic basis to support the Medium Term Expenditure Framework and to inform resource allocation, by examining baseline expenditure (Howlin et al., 2016). In addition to departmental submissions, the *CRE 2012-2014* published six thematic evaluations, as follows:

- Enterprise support,
- Labour Market Activation and Training,
- Overview of Legacy Expenditure Programmes and Policy Reforms including opportunities for rationalising State Agencies,
- Publically-Funded Local Transport Systems,
- Rationalising Multiple Sources of Funding to Not-for-Profit Sector,
- Social Housing Supports.

Comparatively few analytical papers were published with *CRE 2015-2017*, these included:

- Behavioural Economics,
- Future Risks Associated with Climate Change Finance,
- The Cost of Public Services.

Budget 2017 announced plans for a spending review to take place in advance of *Budget 2018*, and background analysis for this is currently being undertaken.

The Design of Spending Reviews

Spending reviews have become increasingly used in public expenditure management internationally. The design and parameters of spending reviews may differ depending on economic context and fiscal objectives. The OECD (2013) undertook an examination of spending reviews and best practices internationally. The study outlined two of the dimensions under which reviews may differ: the nature of the savings, and the scope of the spending review.

1. The Nature of Savings

Spending reviews can be broadly categorised under two headings: (i) efficiency and (ii) strategic reviews:

- (i) An efficiency review seeks to achieve savings by altering the way in which public

¹ This box draws largely on analysis from the OECD Working Party of Senior Budget Officials document on Spending Reviews, GOV/PGC/SBO(2013)6, 3'th Annual Meeting of OECD Senior Budget Officials, Paris 3-4 June 2013. Available at: [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=GOV/PGC/SBO\(2013\)6&doclanguage=en](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=GOV/PGC/SBO(2013)6&doclanguage=en)

² Baumol's disease refers to the phenomenon whereby costs of government services may tend to disproportionately increase relative to the average price of goods in the economy.

services are delivered while still producing the same output. It does not assess the rationale for existing expenditure.

- (ii) A strategic review on the other hand examines expenditure with a view to assessing its continued relevance. Savings are achieved by altering the quantity or quality of outputs or transfers where the scheme is deemed no longer relevant.

The UK 2010 Comprehensive Spending Review provides an example of an efficiency and strategic review which aimed to decrease public expenditure to achieve fiscal consolidation. In contrast the Netherlands 2010 Comprehensive Expenditure Review predominantly sought to achieve strategic savings. Reviews of efficiency and overall strategy in relation to expenditure provide a key input for the achievement of Government fiscal and macro objectives. This requires persistent analysis of baseline expenditure identifying key areas of underlying demand pressure in the medium and longer term. Therefore, a spending review should seek to achieve both efficiency and strategic savings.

2. The Scope of Spending Reviews

In terms of scope, spending reviews may be comprehensive or selective. A comprehensive review, in contrast to what may be inferred by the name, does not examine all expenditure programmes. Rather, the term “comprehensive” refers to how the topics chosen to be reviewed are selected. In a comprehensive review, topics are not selected prior to the review process and all departments are examined to identify the most important areas where savings can be made. In contrast, a selective review is one where a list of topics for review is drawn up *ex-ante*. Selective reviews focus more on sustainability of expenditure than on expenditure reductions. Topics may be selected on an automatic rolling basis, or a discretionary basis.

Recently there has been a resurgence in popularity of comprehensive expenditure reviews internationally, with a focus on fiscal consolidation. However, international best practice suggests a selective review, which is more targeted, and is a more effective means of assessing sustainability and expenditure management. This selective approach is common among the established spending reviews conducted internationally, such as the ‘*Comprehensive Review of Expenditure*’ in The Netherlands and the ‘*Special Studies*’ in Denmark (Blöndal and Ruffner, 2004).³ A more selective approach should make more efficient use of the evidence available. Aligning the three year round of Value for Money Reviews to the selective review topics list could improve the evidence base for decision making.⁴ *SPU 2017* indicated that the next Spending Review will move to a rolling selective review process.

Spending Reviews in the Budgetary Process

Spending reviews act as a complementary tool to the budgetary process for expenditure management. They provide a mechanism to combat incrementalism (i.e., an excessive focus on new expenditure items as opposed to existing expenditure) by

- Presenting an analysis of the baseline expenditure,
- Ensuring that the whole of government expenditure is considered in policy decisions,
- Providing an input into the estimates process where new expenditure can be considered,

³ Although this review is called a Comprehensive Review it is more selective in approach with a list of policy areas to be reviewed chosen *ex-ante*. http://ec.europa.eu/economy_finance/events/2014/20140211-meeting/documents/session3tim_en.pdf

⁴ Under the Public Spending Code all Departments are required to carry out Value for Money Policy Reviews (VfM) and Focused Policy Assessments (FPAs). These reviews examine specific areas of expenditure and address the rationale and objectives, efficiency and effectiveness of the scheme. Departments are required to carry out three VFMs/FPAs in a three year cycle. The topics selected are brought to Government before the cycle begins.

- Providing opportunities for the efficient reallocation of spending across and within sectors (Marcel, 2012).

Thus, spending reviews improve the budgetary process by separating the generation of fiscal space, and through the evaluation of existing spending, from the allocation of resources and consideration of new expenditure.

In line with good public expenditure management the MTEF sets the provisions for Multiannual Expenditure Ceilings. The *CRE 2012-2014* and *CRE 2015-2017* notionally set multiannual expenditure ceilings for the next three-year period. However, these ceilings are being consistently revised upwards in the budget estimates process, which highlights their inefficiencies as credible ceilings and their propensity to incentivise incrementalism.

As outlined in Box I, Ministerial Expenditure Ceilings should be set to take account of underlying demand pressures while also encouraging efficient expenditure management and prioritisation within these ceilings. Spending review evaluations can inform these ceilings. A selective expenditure review, supported by an evidence base of evaluations such as the Value for Money Reviews, will provide important information on efficiency and strategic savings to facilitate prioritisation within expenditure ceilings.