

Selective Spending Reviews in Chile: Action Plan

Updated version

The report has been updated on 01.12.2023 to reflect minor adjustments in the table in Box 1. Specifically, the changes relate to the number indicated under *findings from previous ex-post evaluations in Chile's monitoring and evaluation system*. A note has been included in the table that explains in detail the potential savings related to ex – post evaluations. ***This update does not change the overall findings of the report.***

Álfrún Tryggvadóttir (alfrun.tryggvadottir@oecd.org)

Andrew Park (andrew.park@oecd.org)

Selective Spending Reviews in Chile

Action Plan

By Álfrún Tryggvadóttir and Andrew Park

Table of contents

Acknowledgements	5
Key recommendations for spending reviews in Chile	6
A key moment to conduct spending reviews in Chile	8
Previous experience with spending reviews in Chile	8
How can spending reviews be useful for Chile?	9
Spending reviews in OECD countries	11
Selective spending reviews in OECD countries	11
Savings achieved through selective spending reviews	12
Selection criteria for selective reviews	14
Governance arrangements for selective spending reviews	15
Suggested composition of a working group for selective spending reviews	19
Selective Reviews: Personnel costs	20
Purpose	20
Methodology for review	22
Key considerations for carrying out selective spending reviews in personnel costs	22
Selective Reviews: Administrative and operational costs	24
Purpose	24
Methodology for review	27
Key considerations for carrying out selective spending reviews in administrative and operational costs	28
Conducting selective spending reviews in Chile: The way forward	29
Recommendation 1. Clearly define the roles for carrying out selective spending reviews	30
Recommendation 2. Clearly define the governance arrangements for carrying out selective spending reviews	30
Recommendation 3. Present the findings of each review in a similar way	31
Recommendation 4. Ensure clear link to the budget process	32
Recommendation 5: Monitor the implementation of findings from spending reviews	32
Recommendation 6. Maintain a list of topics that can deliver quick savings	33

Annex A. Spending reviews – Template for line ministries	35
Annex B. Final Report Template	36
Annex C. Terms of References	37
Annex D. Topic selection criteria	39
Annex E. Rules for spending reviews in the Netherlands	40

Tables

Table 1. Recommendations for selective spending reviews in Chile	6
Table 2. Examples of savings identified in selective spending reviews in OECD countries	12
Table 3. Responsibilities of different stakeholders in the Spending Review process	18

Figures

Figure 1. Roles of key stakeholders	16
Figure 2. Typical composition of Working Group in OECD countries	19

Boxes

Box 1. Potential savings targets for the next round of spending reviews	9
Box 2. Examples of savings targets in OECD countries	12
Box 3. Costs and benefits of spending reviews being led by an external entity	16
Box 4. Role of a steering committee and a working group	17
Box 5. Spending Review of the Slovak Republic Ministry of Interior (2016)	20
Box 6. Spending Review on Staffing for national police services in Ireland (2017)	21
Box 7. Spending Review on real estate management in the Ministry of Defence in the Netherlands (2020/2021)	24
Box 8. Spending review on COVID impacts on Commercial Office Market (2020)	25
Box 9. Review on IT services in the Slovak Republic (2016)	26
Box 10. Analysing procurements in spending review practices in OECD countries	27

Acknowledgements

This action plan was coordinated and drafted by Álfrún Tryggvadóttir and Andrew Park, with inputs from Camila Vammalle and Eva Ullinger, all from the Public Management and Budgeting Division, Public Governance Directorate, OECD, under the supervision of Jón Blöndal, Head of Divisions, Public Management and Budgeting Division, OECD.

The authors would like to extend sincere thanks to the Chilean authorities for their valuable inputs and coordination. Particularly, the authors would like to thank the Budget Director, Javiera Martínez Fariña, and Gonzalo Gaete Romeo and Rodrigo Díaz Mery, all from the Budget Directorate (DIPRES) for their invaluable assistance throughout.

Key recommendations for spending reviews in Chile

Chile has laid the foundations for implementing spending reviews. As part of this, the Ministry of Finance has conducted two spending reviews during the period of 2019-2020. The Directorate of Budget of Chile (DIPRES) has asked for support from the OECD to scale up the use of spending reviews and conduct a series of reviews to tackle some of the fiscal challenges the country is currently facing. Before the reviews start, it is important to have all the necessary data in place that is needed to analyse the specific spending areas and give the staff that will do the reviews enough time to devote to the work.

The key recommendations and related actions to carry out selective reviews and strengthen the spending review framework are shown in Table 1.

Table 1. Recommendations for selective spending reviews in Chile

Recommendation	Action	Responsible authority	Start date	End date
R.1. Clearly define the roles for carrying out spending reviews	A.1. Have official mandate to carry out a series of selective SRs	The Minister of Finance	November 2023	November 2023
	A.2. Clearly determine the responsibilities of each actor and set up formal governance arrangements	DIPRES (with the approval of line ministries)	December 2023	December 2023
R.2. Clearly define arrangements for carrying out spending reviews	A.3. Use a standardised ToR to establish clear objectives of each review	DIPRES (prepares the ToR to send to line ministries)	December 2023	January 2024
	A.4. Have clear working rules in place to carry out spending reviews	DIPRES (prepares the rules and has them approved)	December 2023 (prepare an outline for the rules)	January 2024 (have them approved)
	A.5. Include a savings target in the ToR for the reviews	The Minister of Finance/Government	December 2023	January 2024
R.3. Present the findings of each spending review in a similar way	A.6. Use a standardised template for the spending review reports	DIPRES	December 2023 (have the template ready)	June 2024 (use the template for the final reports)
R.4. Ensure clear link to the budget process	A.7. Make sure that the results of the spending reviews can be used to reallocate resources within the fiscal year or considered as part of the next budget negotiations	DIPRES	February/March 2024	June 2024
R.5. Monitor the implementation of findings from spending reviews	A.8. Make sure that the chosen policy options/recommendations are reflected in the budget of a given line ministry by analysing budget trends	DIPRES	September 2024/February 2025 (Reviewed Annually or bi-annually)	Until end of implementation period agreed in Spending Review

	and performance information A.9. Establish a formal monitoring process for following up on the implementation in a systematic way. This could include formal reports accessible to political leaders and the public.			
R.6. Maintain a list of topics that can deliver savings	A.10. Have clear political mandate to regularly carry out spending reviews	Minister of Finance	Ongoing	Maintain mandate (or new mandate for each new Spending Review cycle)
	A.11. Keep a list of suitable topics and use a standardised template to do so	DIPRES	Ongoing	Constantly maintain and update list of suitable topics

A key moment to conduct spending reviews in Chile

Chile is currently confronted with multiple fiscal challenges. This includes domestic pressures and global economic shifts resulting from the COVID-19 pandemic and the war in Ukraine. There is an ongoing social movement which started in 2019 and resulted in a constitutional rewrite process, and a new government agenda following the 2021 general election. During this period, Chilean citizens clearly expressed their demand for more equal access to quality public services.

The government has recently announced a Fiscal Pact, which involved a four-month citizen consultation, to address some of the key fiscal challenges the country is facing. One of the most significant of these challenges is the relatively low share of tax revenues compared to OECD countries (total tax revenues represent 22% of GDP in Chile, significantly lower than the 34% OECD average). This relatively low level of public revenues in Chile implies a lower capacity to finance social policy (OECD, 2023^[1]).

While increasing tax pressure can help to allocate additional funding for social policies, it must be balanced against other challenges facing the Chilean economy, such as concerns that tax increases may slow down investment rates and economic growth. Conducting spending reviews that focus on efficiency gains and creating fiscal space can complement tax reforms and balance the need to increase tax pressure.

Previous experience with spending reviews in Chile

Chile has already taken steps towards introducing spending reviews in its budget process. In 2019, Chile's Budget Directorate (DIPRES) took several steps towards the integration of spending reviews in the government budget process, and developed a methodology to carry out spending reviews, and conducted two pilot spending reviews in 2019 and 2020. A single report was produced for the two reviews in January of 2021 entitled "Review of Public Spending in Chile: Consumer Goods and Services Supporting the Public Sector". The findings of the spending reviews led to adjustments to the 2021 budget in public sector goods and services ("Subtitle 22"). These changes were analysed in the report "Evaluation and Formulation of the Budget 2021".

The "Review of Public Spending in Chile" report focuses primarily on using benchmarking to identify discrepancies between the initial budget proposal and government spending. Although this is a relevant approach for finding gaps in the medium term and annual budget frameworks, it is not typically the central element of a spending review. Rather, spending reviews aim to analyse specific spending areas (i.e. IT costs, health, or education expenditure, etc.), and look for spending inefficiencies across services/sectors to identify reallocation measures or potential savings.

The "Review of Public Spending in Chile" report does not contain any clear recommendations as part of the findings from the review. As a result of this, the evaluation conducted in the "Evaluation and Formulation of the 2021 Budget" cannot demonstrate a clear relationship between the findings of the spending review and changes to the budget. Policy recommendations and monitoring the implementation of findings from reviews are an essential part of conducting effective spending reviews. Future spending review reports will be improved by providing recommendations that are clearly linked to the findings of the spending review.

Similarly, changes to the budget based on the spending review should be presented and evaluated according to these policy recommendations.

How can spending reviews be useful for Chile?

Spending reviews can be an instrumental tool to address the current fiscal challenges in Chile. They can be used to reallocate and reprioritise public expenditure to identify fiscal space for new and emerging spending priorities, and as such, assist the government in delivering better with less and improve the quality of outputs for better public outcomes.

Selective spending reviews usually focus on specific programmes where the government decides on reviews based on budgetary problems and spending areas that are no longer meeting their intended objectives.

For selective spending reviews to be effective, it is important to have clear governance arrangements, where the Ministry of Finance leads the work but engages closely with relevant line ministries. This often includes a steering committee of high-level officials and a working group of relevant officials from the Ministry of Finance and line ministry or ministries. It is very important to have clear objectives for the reviews, as well as clear political backup for those objectives. As such, conducting a series of selective spending reviews, where there are clear objectives and governance arrangements, can be a beneficial way for Chile to obtain savings options that can be used to reallocate fiscal resources.

Building on the experiences from OECD countries, the Chilean Ministry of Finance has identified areas to conduct selective spending reviews:

- Operational expenditure
- IT expenditure
- Real estate
- Personnel

Drawing upon the experiences of carrying out similar reviews in other OECD countries, the Ministry of Finance's Budget Directorate (DIPRES) has identified potential savings of between 0.11% to 0.13% of GDP in total to be realised over the medium to long-term. A more detailed explanation of this analysis is presented in Box 1.

Box 1. Potential savings targets for the next round of spending reviews

Chile can draw upon the experiences from other OECD countries to identify appropriate savings targets for the next round of spending reviews. Based on the experiences of the reviews showed in Table 2, the Chilean Ministry of Finance has identified potential areas on which to conduct Selected Spending Reviews: operational expenditure, IT expenditure, real estate, and personnel, seen in Table 3. To identify the expenditure on each of those areas, the Ministry of Finance's Budget Directorate (DIPRES) examined similar budget classifications that have been reviewed by other OECD countries such as Maintenance and Repairs, General Services (e.g. traffic light maintenance services), Leases, Technical and Professional Services (e.g. training courses), Computer equipment and Computer programmes (amongst other classifications) that pertain to operational, IT and rent spending in the 2022 State Budget. To identify potential savings projections, DIPRES multiplied the expenditure incurred in the 2022 state budget on each of these areas by the estimating savings presented in Table 2. This exercise

provides potential savings of between 0.11% to 0.13% of GDP in total to be seen over the medium to long-term.¹

It is important to consider that the assessment done by DIPRES is a raw approximation to the potential savings that could be generated in the Chilean Budget by the implementation of Selected Spending Reviews on these areas. The calculations consider the saving rates generated in other OECD countries, which was developed within the constraints of each country's national context, and serve as a reference for the areas identified in Chile's upcoming round of spending reviews.

Identification of potential savings based on OECD country experiences

The Ministry of Finance of Chile, based on the OECD country experiences of spending reviews in similar spending areas, have identified potential savings for the upcoming round of spending reviews for future budget years.

	Scope of 2022 budget under revision (USD, million)	Estimated savings target (%)	Estimated savings (USD, million)
Operational Expenditure	4,688.2	3.0%	140.6
IT expenditure	275.5	27.0%	74.4
Real Estate	209.1	5.4% - 40%	11.3 – 83.6
Personnel Expenditure	2,836.7	1.5%	42.6
Findings from previous ex-post evaluations in Chile's monitoring and evaluation system (<i>Oferta Programática, OOPP</i>)	1,714.5	3%	50.9
Total	9,724.0		319.8 – 392.2

Note: Estimated savings targets (%) were determined by benchmarking identified savings from similar spending reviews in OECD countries. For the potential savings related to ex-post evaluations, it has been considered, as a scope of the budget under revision, the 5% of the expenditure in current and capital transfers, based on previous evaluation processes. Moreover, a saving target of 3% was assumed, which is equivalent to three times the savings generated by this instrument during the 2024 budget process. This assumption is based on a scale-up of the ex-post evaluations (Exchange rate based on 868 Chilean Pesos = 1 USD).

Source: Ministry of Finance of Chile, Budget Directorate (DIPRES)

It is important for Chile to plan for savings to be realised and tracked over the medium-term. Experiences from OECD countries have shown the importance of understanding that savings identified are likely to be realised across a multi-year timeline. The OECD Best Practices for Spending Reviews indicate the importance of aligning spending reviews with medium-term frameworks (3-5 year horizon) as some of the findings of a spending review will only be possible to be implemented over the medium-term (e.g. redesigning the delivery of public services, legislative or regulative changes, termination of leasing contracts). As Chile implements spending reviews, it will be important for the Ministry of Finance to identify clear areas of responsibility amongst relevant line ministries in the implementation of recommendations over a multi-year time horizon.

¹ Estimate based on budget figures from the 2022 State Budget and 2023 GDP of Chile at 301.448 billion USD

Spending reviews in OECD countries

The government's existing baseline of expenditure is often the *de facto* starting point from which a government prepares its budget. Spending reviews look at this stock of existing expenditure and have a crucial role in helping governments manage public spending through reallocation of fiscal resources.

As such, spending reviews are tools for systematically analysing the government's existing expenditure. They are clearly linked to the budget process. The purposes of a spending review include:

- Enabling the government to manage the aggregate level of expenditure.
- Identifying savings and/or reallocation measures
- Improving effectiveness and efficiency within programmes and policies.

Spending reviews have become a regular – and important – tool for good fiscal management by providing governments with means to identify fiscal space, reprioritise expenditure and improve efficiencies across the public administration.

Almost all the OECD countries use spending reviews. This includes countries with longstanding practices such as the Netherlands and Denmark as well as those who have recently adopted the practice. The exact purpose of spending reviews varies from country to country, showing that spending reviews are a flexible tool that can fit different contexts and purposes.

Spending review models in OECD countries can be categorised as either *selective* or *comprehensive*. For selective spending reviews, the government usually decides each year on a few reviews that are selected based on budgetary problems such as overspending, ineffective public policies or the desire to change certain policies or unexpected growth within specific spending areas. On the other hand, for comprehensive spending reviews, the government decides to focus on a greater part of public expenditure over a certain period – often an electoral term - where it lists up the schedule by which most spending programmes will be reviewed over a certain period. A comprehensive review usually has a greater scope and yields greater savings than a selective review, and the topic selection process for comprehensive reviews is often simpler than for selective reviews since most spending areas will be reviewed over a certain period.

One of the key features of spending reviews in OECD countries following the 2008 financial crisis was the broad scope of reviews and strong focus on savings measures. In the years following the crisis, the scope of spending reviews changed, where countries mostly focused on selective annual reviews, and the focus shifted away from savings measures towards increasing effectiveness and value-for-money of expenditure. As countries look to sustainably address current and emerging fiscal pressures, the focus of spending reviews has again shifted towards spending reviews to identify savings measures and fiscal space.

Selective spending reviews in OECD countries

Combining selective spending reviews with other types of spending reviews, such as comprehensive reviews, can be a good way to identify improvements in the efficiency of spending.

Commonly, OECD countries have conducted selective spending reviews on areas related to **Personnel Costs** and **Administrative and Operational Costs**. As Chile looks to conduct a series of selective reviews

and in identifying savings to help manage fiscal balances, lessons can be drawn from country experiences. Countries have used spending reviews to align baseline spending in personnel and operations to key government priorities and identified ways to develop savings by reassessing existing staffing models, procurement, and service delivery models to citizens. Countries usually draw upon consultations with key stakeholders and information from previous assessments, evaluations, project documents and historical expenditure trends to identify possible savings.

Savings achieved through selective spending reviews

Spending reviews on personnel, administrative and operational costs have identified specific estimated savings that result from improvements in processes (e.g. centralising costs), labour cost adjustments, digitising back-office functions, as well as creating standards across entities and ministries to minimise variances in costs across the public administration.

Setting clear targets for spending cuts or reallocation measures has proven to be a key success factor in OECD countries. This facilitates monitoring – particularly from the Ministry of Finance – when implementing the results of the spending review. Value-for-money measures that are not clearly tied to savings (e.g. process or management improvements) often complement the savings objectives, to ensure they drive policy impact. Focused savings targets are important to help countries be proactive (identifying fiscal space), be defensive (identifying areas to cut to accommodate urgent spending needs) and to improve the composition of the budget such that they are more closely aligned to the priorities of the government.

Savings targets can be expressed in different ways. Some countries provide a monetary target, others set savings rates, which can be either annual or multiannual, on overall expenditure or targeting only a category of expenditure (ex. Operating expenditure) and expressed in real or nominal terms (Box 2).

Box 2. Examples of savings targets in OECD countries

Country	Savings targets
Canada	To target savings of CAD 1.5 billion from 2020-21 (2020)
Denmark	Annual targets of achieving a 2% productivity gain on operating expenditure
France	Real 10% savings over 3 years (General Review of public policies)
United Kingdom	Real 3% savings per annum for departmental expenditure (2007)

With regards to spending reviews on personnel, administrative and operational costs, countries have identified savings estimates to be tracked over a medium-term time frame. The examples below illustrate the various savings measures a selected group of OECD countries have identified during their review process (Table 2).

Table 2. Examples of savings identified in selective spending reviews in OECD countries

Country	Sector	Spending Review Topic	Year	Recommendation	Scope of budget reviewed*	Savings identified (Estimates)	Timeframe
Ireland	Cross-cutting: Land management	Analysis of Covid Impacts on Commercial Office Market – Potential Implications for State	2020	Greater “Work from Home” flexibility is likely to lead to savings in market rents for public office leases	EUR 102.5 million (2019)	Up to EUR 46% reduction of office rent per staff member (from EUR 6,217 to EUR 3,357)	Annually

		Leases					
	Cross-cutting: Information Communications Technology	Revenue digitization	2018	From 2011-2017, Savings realized from digitisation of Ireland's revenue services (e.g. staff reductions via natural attrition, removing, streamlining and automating business activities)	EUR 584 million (EUR 58.4 million annually) (2007-2017)	EUR 63 million	6 years
	Justice	Digitally-enabled court services	2020	Centralising jury summoning process	EUR 1.97 billion annually* (*Irish Court Service)	EUR 95,198 annually (of which EUR 59,009 in first year)	Annually
				Reducing prisoner escort requirements by facilitating more appearances in court by video (from 2015-2019)		EUR 6.3 million	5 years
	Justice	Review on investments in police spending	2017	Civilianisation of national police (transitioning certain roles to non-police staff) of 1,500 positions			EUR 45 million
Israel	Justice	Review of prison service expenses and efficiency in energy consumption	2020	Fund to support prison services develop energy efficiencies	NIS 20.6 million (2018)	NIS 5.2 million	Annually
				Use of Heat pumps in prison facilities		NIS 0.7-1 million	Annually
				Using individual generators and purchasing energy from electricity companies during non-peak hours		NIS 5.2 million	Annually
Norway	Cross-cutting: Land management	Management and Organisation (Government Building and Property Management)	2017	Establish improved governance and standards to take into account cost-efficiency in leased buildings – e.g. standardizing 18.6 sqm of office space per employee	Est. NOK 15.6 billion annually	Up to NOK 856 million (85 million per year)	10 years
Slovak Republic	Justice	Spending Review of the Ministry of Interior (Public Administration & Safety)	2020	Reduce the number of police officers per capita (to regional average)	EUR 1.3 billion annually* (*Ministry of Interior's core activities – police, fire protection and District Authorities)	EUR 6 to 73 million	7 Years
				Reduce utility purchase prices to costs comparable to other ministries		EUR 0.1 – 0.2 million	4 years
				Reduce purchase prices of public security forces uniforms		EUR 0.5 million	4 years
				Utilise in-house capacities for analysis and consulting activities (e.g. move away from external consultancies)		EUR 1.5 – 3 million	2 years
				Prepare a basis for charging cloud service fees		EUR 19-27 million	3 years
				Reduce the number of FTE (Full-Time Equivalent) staff in proportion to the measured resource saving benefits		EUR 29 million	10 years
				Implement a systemic approach to cost, benefit and performance monitoring of ICT projects		EUR 7-14 million	3 years

Cross-cutting: Public sector wages	Spending Review of public wages	2020	Optimising cross-cutting processes in each ministry (e.g. reduction in staff, centralizing services, consolidation of offices, savings through digitisation)	EUR 8.4 billion in 2018* (*compensation for public employees)	EUR 148 million (of which EUR 11 million in the first year)	3 years
			Optimising employment in State-owned enterprises (e.g. reduction in FTE, centralizing services, optimizing purchases)		EUR 67 million (of which 33 million in first year)	3 years
			Reduce number of policemen to EU average		EUR 96 million (of which EUR 16 million in first year)	7 years
			Rationalise the regional school network (e.g. setting minimal school size standards in regional schools)		EUR 15 million	3 years
			Optimise number of non-teaching staff at universities (e.g. reduction in FTE and centralizing functions)		EUR 44 million	3 years
			Concentrate performance of local governments (e.g. consolidating local government functions to larger units)		EUR 396 million	3 years
Cross-cutting: Information Communications Technology	Spending Review on IT	2016	Develop a binding cloud migration plan	EUR 500 million (Est. 83 million annually) (2010-2015)	EUR 10-15 million annually (of which UER 6.8 million on first year)	Annually
			Centralise procurement of support IT services such as telecommunications and connectivity		EUR 9-27 million annually	Annually
			Streamline procurement of Microsoft license products		EUR 6.5 million annually	Annually

*Based on government estimates in spending review reports.

Note: In many OECD countries, monitoring capacities for implementation of spending reviews is limited. Thus, we have omitted *realised* savings due to limited information available.

Selection criteria for selective reviews

There is strong political support by the Minister of Finance in Chile to use selective spending reviews to identify efficiency gains in public spending. It is therefore important to seize this window of opportunity to carry out spending reviews which will allow savings and reprioritization of expenditure that can be tracked starting from the next budget cycle. Such successful experience will help establish spending reviews as a regular part of the budget process. As spending reviews become a regular part of the budget process, DIPRES can maintain a list of possible savings in each budget area that can be used for future spending reviews.

Identifying suitable topics for spending reviews can be challenging. When conducting spending reviews to identify savings measures, the topic selection process becomes even more challenging. In addition, when a country has recently started spending reviews and is trying to embed the framework as an ongoing

practice – such as Chile – making the right choices on topic selection to achieve quick and substantial results is even more important. Doing this will demonstrate the value of the process to the government and increase the chances that the process will be embedded as a regular practice.

Selecting a suitable topic for spending reviews requires strong collaboration between major stakeholders, such as the Ministry of Finance, relevant line ministries and, naturally, political leaders. This would usually require the budget staff in the Ministry of Finance to propose relevant areas for quick wins to the Minister of Finance, indicating that this is an area where there are potential quick wins that can be used to find savings measures. The engagement of the relevant ministry or ministries in the review process is crucial and therefore, they need to be engaged early on.

Involving line ministries in the topic-selection process and holding them accountable from the beginning of the review process has become increasingly popular among OECD countries, as opposed to the more Ministry of Finance-driven approach that was common after the financial crisis. Although strong ownership and commitment from the Ministry of Finance is essential, involving and engaging line ministries at most stages of the spending review process can greatly facilitate the review process.

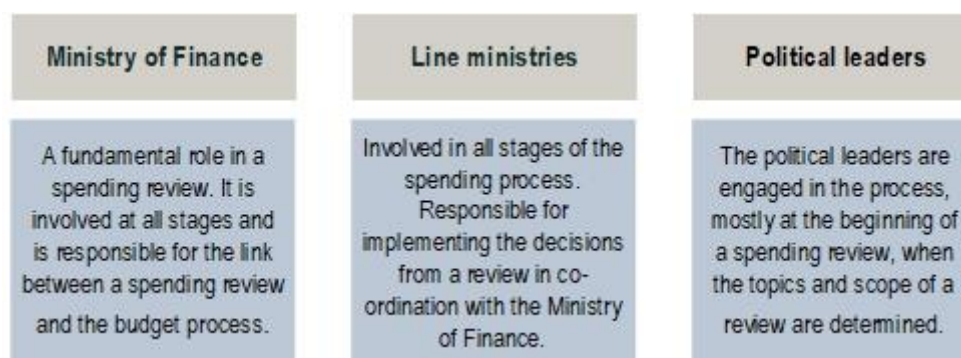
For spending reviews to effectively deliver results, it is essential to keep mind certain criteria to make sure the selected topics will deliver the intended results (Annex D):

- *A narrow and clearly defined scope of the review:* the scope should be realistic so that it fits within a reasonable timeframe and can deliver manageable wins.
- *Political willingness and commitment to review the spending area:* if a review is to deliver manageable results, there needs to be political consensus around the selected topic. Likewise, the relevant minister(s) should be willing to support the spending review.
- *Strong collaboration from the relevant line ministry or ministries that are being reviewed:* the ministry or ministries being reviewed need to be willing to participate in the review and have strong analytical capacities within the selected area.
- *Access to relevant data:* it is important to select a topic where there is access to relevant data. If this is not the case, there is a risk that too much time will be wasted on gathering the relevant data.

Governance arrangements for selective spending reviews

Experiences from OECD countries suggest the importance of having the right stakeholders participate in the spending review process. This is especially applicable for reviews that focus on a specific issue – it is important to ensure there is relevant expertise and understanding of implementation within the working groups to ensure sufficient quality of information within the review process. As seen in Figure 1, the Ministry of Finance, line ministries and political leaders each play a specific role and function within the spending review process. Such division of responsibilities helps to ensure appropriate leadership and engagement is in place across all the stages of conducting a spending review.

Figure 1. Roles of key stakeholders



Lessons from countries have shown the critical importance of Ministry of Finance engagement throughout the spending review process. The Ministry of Finance leads the spending review process and ensures that all ministries are working towards the same goal. In most cases, the Ministry collaborates with relevant line ministries and is responsible for making sure all participants of the review are following the mandate and terms of reference of the review process. In some contexts, spending reviews are led by an external entity such as in Spain where it is led by the Independent Authority for Fiscal Responsibility (AIReF, *Autoridad Independiente de Responsabilidad Fiscal*). As such, it is important to keep in mind the costs and benefits of spending reviews being housed outside the Ministry of Finance, as seen in Box 3.

Box 3. Costs and benefits of spending reviews being led by an external entity

Countries have often adapted spending review practices that suit the needs of the national and institutional context. In some cases, reviews are led by an outside entity which can provide independence and objectivity to the review practice similar to the role of audit and fiscal institutions seen in other OECD countries. However, it is important to keep in mind the relative costs and benefits of spending reviews being driven externally.

On one hand, reviews being managed externally can provide impartial views on public spending while on the other hand can lead to a lack of ownership of implementing the results of the spending review to the budget cycle. Lessons from OECD countries have shown that it is often most effective when the Ministry of Finance has a 'driving seat' in the review process to ensure the recommendations and policy options are realistic and achievable. As the function and process exists outside of the remit of the government, review exercises can run risk of being perceived as an external audit and evaluation.

Costs and Benefits of externally led spending reviews

Costs	Benefits
Lack of ownership within Ministry of Finance and Line Ministries	Provides appearance of objectivity and impartiality in the review
Limited linkage to budget process (recommendations can be ignored by the government)	A replacement when internal capacities are temporarily lacking
Confusion as an external audit or evaluation	

Spending reviews are conducted by a working group (consisting of working-level representatives from Ministry of Finance, line ministry and, if relevant, external consultants) under the supervision of a steering committee (consisting of high-level officials from Ministry of Finance and line ministries), as described in Box 4.

Box 4. Role of a steering committee and a working group

Steering committee

The role of steering committees in spending review processes across OECD countries varies, but commonly steering committees are responsible for supervising and co-ordinating the work of working groups, as well as providing oversight and bringing findings and recommendations to political leaders.

Members of the steering group typically include senior representatives from the Ministry of Finance, the heads of department from the areas of government participating in the spending review, or their nominees. Other members might include a representative from the executive branch of the government and/or an independent representative.

In OECD countries, government ministers or their political advisors are usually not included in steering groups. This does not mean that the review is without political engagement, as the government takes the final decision on the recommendations in the spending review but ensures that the work is not politically influenced.

Working group

The analytical capacity of a spending review is concentrated in the working group that undertakes the analyses. Working groups should have a diverse composition of representatives to provide balance of interest and incentives, where the Ministry of Finance and relevant line ministries participate. The core responsibilities of a working group are to:

- Analyse topics according to the objectives of the spending review based on a political mandate.
- Prepare the spending review reports that conclude with options for political leaders to decide on.
- Propose recommendations to the steering group.
- Prepare the report(s) and presentation(s).

Working groups should involve various stakeholders such as representatives from Ministry of Finance, line ministries, social partners and, if relevant, external consultants to ensure balance of interest and incentives. The working group should be independent from political influence and be composed of members with sufficient knowledge within the examined field and public administration in general. The working group is convened for a scheduled number of meetings where the purpose and agenda for the meetings is determined in advance. The purpose of the structure is to ensure a no-surprises approach and for members to undertake work in advance of each meeting. The meetings help to manage risks of delay, provide updates on progress and to escalate problems to the steering group.

Within the context of spending reviews on personnel, administrative and operational costs in OECD countries, key stakeholders have taken part in the working group to ensure relevant expertise and knowledge is provided in the assessment. Most often, this includes the Ministry of Finance leading the spending review process joined by select entities from the relevant Ministry or Agency as well as inputs from external experts outside of government:

- **Ministry of Finance:** In almost all cases, the Ministry of Finance leads the Working Groups over the course of the spending review process.
- **Relevant Ministry or Agency:** The entity that is responsible for the main area of review in question. This can be the entity responsible for IT services for all of government, the entity that has the most significant level of spending related to a particular topic across the government (e.g. IT service or procurement of specific goods/services) or agencies responsible for a specific function

on behalf of the government (e.g. Responsibility for real estate management). In other instances, spending reviews have involved 'neutral' entities that may provide objective views on the review in question.

- **External expertise:** In some cases, spending reviews involved consultation of external experts from academia, private sector, consultancies, or audit institutions for input into the working group. Though they do not participate in the discussions during the working group, they provide additional information and context to the review subject in question to inform discussions (e.g., information on previous research or audit reports).

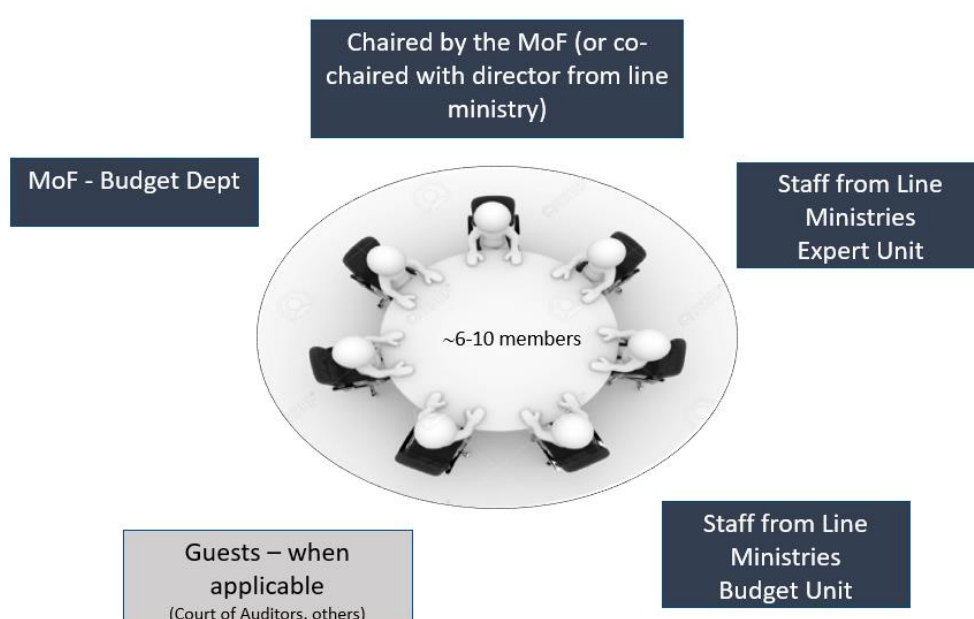
Table 3. Responsibilities of different stakeholders in the Spending Review process

Action	Ministry of Finance	Line ministries	Political leaders	Steering committee	Working group	Independent bodies
Communicate the benefits of SRs to create consensus for introducing SRs	✓		✓			
Formally launch the SR process			✓			
Include information on the SR process in budget circulars	✓					
Decide on the key design features of SRs	✓		✓			
Define the overall scope of SRs	✓		✓			
Define the overall objectives of SRs	✓		✓			
Define roles of key stakeholders	✓					
Call for topics	✓					
Develop topic proposals	✓	✓				
Shortlist topic proposals	✓					
Choose SR topics			✓			
Establish specific roles	✓			✓		
Define specific objectives within ToR	✓			✓		
Establish clear timelines within ToR				✓	✓	
Draft ToR	✓	✓			✓	
Approve ToR			✓	✓		
Draft final SR report					✓	
Develop policy options/ recommendations					✓	
Check compliance of the final SR report to ToR				✓		
Approve final SR report			✓	✓		
Decide on which policy options to implement			✓			
Reflect selected policy options in the annual and multi-year budget	✓	✓				
Monitor the implementation of the selected policy options	✓	✓				
Feedback on improvements of the spending review process	✓	✓	✓			
Review the key features of the overall SR framework	✓					✓
Review individual SRs	✓					✓
Adjust the framework based on lessons learnt	✓					
Ensure political commitment	✓		✓			
Build up capacities	✓	✓				
Create incentives to participate in SR process	✓		✓			

Suggested composition of a working group for selective spending reviews

When organising a working group, it is important to ensure the group is small enough to hold substantive discussion but wide enough to ensure appropriate expertise feeds into the spending review assessment. Typically, working groups comprise of 6-10 people that can provide a diverse set of viewpoints to ensure quality of analysis. Representatives have typically included staff from the Ministry of Finance and the relevant line ministries (both from the budget/finance units and those that work on the relevant policy area). In some cases, working groups have consulted experts for input from the Supreme Audit Institution, Academia, and Civil Society, as well as stakeholders who play a big role in the policy area. A typical arrangement can be found in Figure 2, below.

Figure 2. Typical composition of Working Group in OECD countries



Selective Reviews: Personnel costs

Purpose

Human resources is an area where expenditure is particularly constrained, as civil service rules and contracts make it difficult to reallocate or reduce the workforce. In addition, even if savings on personnel costs could be found in one area, it is not straightforward to reallocate these savings away from that area, towards a higher priority spending. Spending reviews have proven useful instruments for identifying possible savings opportunities and reallocating these savings to higher priority areas. For example, countries have reflected upon demographic changes in the public service (e.g. expected vacancies in retiring staff in the medium-term) as an inflection point to make structural changes in personnel to ensure greater efficiency, effectiveness and alignment to key priorities.

Selective spending reviews on personal costs typically address the following areas:

- **Human resource policy:** phasing out lower-priority staffing, identifying savings through retirement of older staff, building in-house capacity and cutting consultant costs, rationalising overtime costs.
- **Administrative measures:** providing clearer guidance and flexibility on hiring arrangements.
- **Reallocation of staffing functions:** digitizing staffing functions, shifting administrative responsibilities from specialised staff to administrative staff.
- **Improvements in effectiveness:** ensuring greater performance with existing staffing expenditure through clearly developed performance objectives and monitoring.
- **Alignment to priorities:** ensuring staffing functions are aligned with priorities of the government (e.g. reallocating spending towards understaffed positions that are high priority).

Typically, analysis includes “root causes” of spending pressures amongst staff, analysis of the type of staff employing the most overtime hours (e.g. specialised staff incurring the most overtime), staff dedicating time on low-priority functions, the distribution of staff functions (e.g. specialised doctors that comprise of a small percentage of workforce but accounting for a majority of staffing expenses), or overlapping responsibilities amongst cross-cutting services (e.g. duplication of similar administrative functions across multiple agencies/entities).

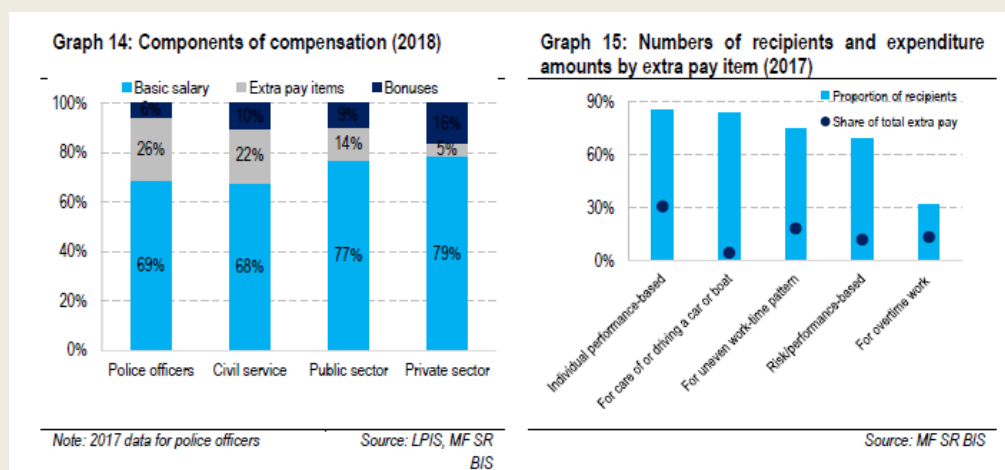
Box 5. Spending Review of the Slovak Republic Ministry of Interior (2016)

The Slovak public administration and safety department in the Ministry of Interior is one of the major areas of spending for the government. The Ministry of Finance saw potential to improve public services to improve the life of citizens by carrying out a spending review in this area. Specifically, the spending review identified measures for the Ministry of Interior – in particular the national police force and its administrative functions - to generate savings of between EUR 63 and EUR 147 million.

The review looked at various sources of information including:

- Baseline budget information by programme and function (e.g. fire service, police, central support) and its sub-components (e.g. expenditure on equipment, cleaning services, vehicle fleet management);
- Data on the composition of each service area (e.g. police, fire fighters) such as by function, age, education, gender, compensation, working time and overtime charges;
- Performance information by individual functions such as performance metrics, previous evaluations and performance audits;
- Outputs on consultancy contracts against intended objectives;
- Data on information services such as spending on IT such as procurements and spending on internal human resources and external resources;
- Organisational structure of IT staff (e.g. a map of internal IT positions);
- Comparable regional benchmarks (e.g. level of expenditure spent on police).

In particular, the review focused on the Slovak Police Force which encompassed 1.27% of GDP (higher than the regional EU average) by looking at the number of police officers and their functions. The review found that 26% of police officer compensation is dedicated to extra pay (e.g. overtime) which is higher than the average compared to other public sector employees and in the private sector.



The spending review recommended a variety of process improvements such as extending assessment of police work in line with international best practices and reconsideration of retirement pension arrangements, savings measures such as reduction of police officers per capita over the next 7 years (generating EUR 6-73 million in savings) and digitising administrative functions in the Ministry of Interior over the next 10 years (generating EUR 29 million in savings) as well as measures to improve performance such as through regular performance monitoring of various internal functions.

In other contexts, spending reviews have allowed opportunities to identify cost drivers for staffing expenses, as seen in Ireland in Box 6.

Box 6. Spending Review on Staffing for national police services in Ireland (2017)

In 2017, Ireland carried out a spending review to examine medium-term spending impacts on their national police service initiative (*Garda Modernisation and Renewal Programme*) and the government's 5-year police workforce initiative (*High-level Workforce Plan for a Garda Síochána*). The review

specifically examined areas to improve efficiencies to allow for additional policing hours within existing spending.

The review examined historical spending trends to identify medium-term views on staff pay (e.g. accounting information on payroll and overtime), staff numbers and overall expenditure, performance metrics (e.g. crime statistics). The main results are:

- **Identified cost drivers for Police services** police services where staff pay and pensions account to a majority of ministry spending (84%) of which overtime and allowances comprise a notable share (30%). Specifically, the review identified that spending on overtime has increased higher than international comparisons and specified risks of overtime spending leading to high opportunity costs on other priority initiatives.
- **Identified cost savings efficiencies** by transitioning certain police functions to non-police staff which will save EUR 45 million in annual savings and reallocating total of EUR 2.5 million police hours to more operational policing. The review recommends increasing the pace of this transition and reducing the amount of overtime to help manage savings and improve efficiency in how police spend their time (e.g. less on administrative duties to more operational functions).
- **Identified areas to remove overtime** through suggestions to transfer certain police functions (e.g. administrative duties) to non-police staff, increasing the use of technologies, reducing attendance to court sittings, tighter budget controls and improved management of staffing functions. The review found that overtime is one of the areas most often seen as potential to generate efficiency savings in their review of international comparisons.

Methodology for review

As spending reviews take place within a focussed period of time, it is important to ensure the scope of review is clearly defined and limited relevant to the capacities available within the Ministry of Finance and stakeholders. As such, most reviews on personnel costs have related to specific functions of government within an identified ministry (e.g., Ministry of Justice, Ministry of Health) such as staff in the public health service in hospitals and community health centres, public sector teachers, national police and firefighters. Such focus helps to ensure there is sufficient depth in analysis within the time and capacities allotted for the review. For cross-cutting reviews that have examined public sector wages across the administration, analysis has focussed on promising areas based on analysis of expenditure trends in a particular sector (e.g. high rate of growth in salaries in recent years), key political policy areas (e.g. education), or looking at opportunities to centralise staffing arrangements (e.g. centralising internal administration).

Typically, spending reviews that have focussed on personnel costs have drawn upon a diverse set of information to inform their assessment. Lessons from these experiences show that it is critical to ensure there is a solid base of evidence to draw from before deciding on a specific area for review. Furthermore, spending reviews in this topic have evolved around a set of key questions to ensure the government is approaching the topic from different perspectives.

Key considerations for carrying out selective spending reviews in personnel costs

Based on the OECD country experiences in reviewing personnel costs, this section presents the key guiding questions and indicators that Chile could use if/when carrying out spending reviews in personnel costs.

Key Guiding Questions

- *Alignment to priorities*: How is staffing aligned to the Ministry and Government's priorities? Are staffing resources focused on areas that are low in priority? Are high-priority areas understaffed or overstaffed?
- *Historical spending trends*: What has been the previous pattern of spending? What are the main cost drivers for such spending (e.g. specialised staff charging overtime)? Are there short-term pressures on spending for certain staff and is it likely to increase/decrease over the medium-term? What is the medium and long-term outlook of staffing functions with expected retirement?
- *Comparison to benchmarks*: What benchmarks (e.g. private sector, neighbouring countries in the region) can be looked at for comparison?
- *Regulatory measures*: What regulatory changes can be made to improve effectiveness (e.g. reduce paperwork)?
- *Digitalisation*: Are there functions that could be digitised? (e.g. transitioning paperwork duties to IT functions)

Possible sources of information

- Survey data from Ministries and agencies.
- Relevant audit findings and policy evaluations.
- Relevant Cost-Benefit Analysis assessments.
- Staffing trends in comparison to regional and private sector benchmarks (e.g. staffing numbers by function).
- Average wages of public sector employees in comparison to private sector, and civil servants in regional countries.
- Demographics of public sector (e.g. employees within retirement age).
- Skills of public sector staff compared to private sector (e.g. education and IT skills).

Selective Reviews: Administrative and operational costs

Purpose

In many OECD countries, spending reviews have looked upon administrative and operational costs to identify areas to generate savings by streamlining processes, procurements and management of assets across the public administration. Examples include reviews on ways to improve procurement of goods and services, manage real estate and digitising public services to help generate savings and improve services to the public. Most recently, following the COVID-19 health crisis, countries such as Ireland and Canada have conducted or plan to conduct spending reviews on the management of government property in light of flexibility arrangements for civil servants to work from home.

Examples of spending reviews in this area include:

- **Alignment to priorities:** Examples include ensuring spending on real estate is aligned to government priorities and identifying ways to reduce expenditure on areas that are low-priority for the government, prioritising IT investments, addressing specific government initiatives (e.g. climate change) by improving energy efficiency of specific public functions (e.g. public prisons).
- **Savings:** Examples include digitising public services and reducing administrative costs (e.g. paperwork) and centralising IT support services and purchases.
- **Improving efficiency of spending:** Identifying efficiencies in public services through digitalisation (e.g. digitising certain court services), finding savings in office leases in line with flexibility of home working for civil servants, improving processes for property management by centralising functions.

Box 7. Spending Review on real estate management in the Ministry of Defence in the Netherlands (2020/2021)

The government decided to conduct a spending review on the management of real estate under the Ministry of Defence after observations have shown that real estate management adding significant spending pressure on its budget.

In particular, the spending looked into a few questions:

- What does the current real estate portfolio of Defence look like today?
- What is the current approach to real estate management and the division of responsibility in decision-making and implementation?
- What accounting framework is used to reduce the real estate footprint?

- To what extent is cooperation with market parties or transfer of ownership to the (*Rijksvastgoedbedrijf* – the government's real estate management agency) appropriate? What is the budget implication of this?
- What are the possibilities for accelerating real estate investment?
- How can sustainability be achieved? What role do innovations, external financing, less human-intensive work can be done?
- What real estate management and information provision is part of providing sustainable, future-proof, compliant and structurally affordable real-estate portfolio?

In its review, the government looked at existing documents on the current real estate portfolio, the use and occupancy of properties and the governance arrangements in the decision-making and execution of real estate management. To inform its analysis, the spending review working group consulted experts across different ministries (for comparability) as well as experts from the private sector and academia along with working visits to defence locations.

The spending review led to recommendations of phased ownership of certain properties to the government's real estate management agency (*Rijksvastgoedbedrijf*) to improve efficiency and management of costs as well as decentralising certain properties to specific agencies where savings could be realised. This includes policy options to share the use of space with municipalities and other civil training institutions, reduction of real estate portfolio to 65% of current levels by 2035, demolishing certain properties that are not in use and divesting 35-40% of the real estate portfolio such as those that incur the highest operating costs.

In other contexts, spending reviews have been used to identify opportunities for future savings following the changes of office commutes after the COVID-19 health crisis, seen in Box 8.

Box 8. Spending review on COVID impacts on Commercial Office Market (2020)

In 2020, Ireland conducted a spending review to understand changes in demand in office accommodation of the civil service in light of increased flexibility arrangements and its implications on leased office spaces by the government. The review examined emerging trends in the office rental market by looking at trends before and after the onset of COVID-19 by examining rental expenses and rental prices in the private market, analysed office demand in the civil service, and made assessments on the potential impact of remote working on public spending. The spending review identified potential savings:

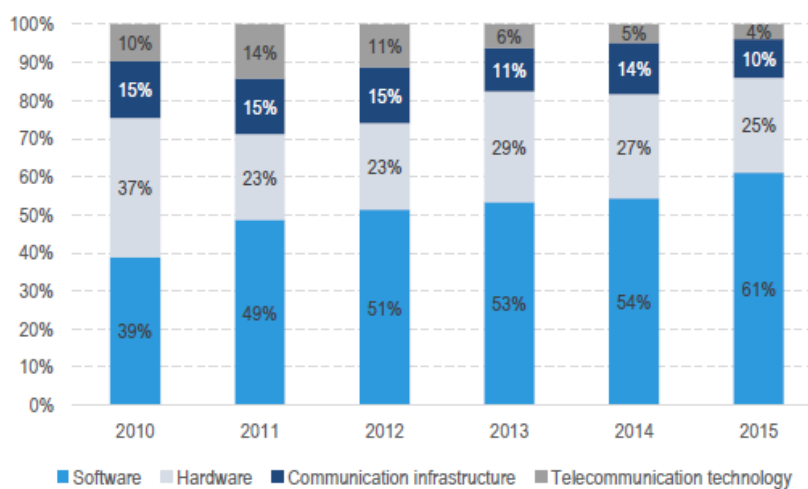
- **Savings in government leases** based on scenarios where civil servants work 20% from home (reducing average cost per staff by 24%) and 40% from home (reducing average cost per staff by 46%). In particular, the spending review identified that about 49% of the government's leased portfolio is to expire in the medium-term (over 5 years) with 58% of the leases in the capital (Dublin). The spending review provided a timely analysis to identify potential savings as the government looks to maintain healthy fiscal balances over the medium-term.

Most commonly, spending reviews have focussed on the effects of digitalisation and its impact on generating savings, driving efficiency and improving the quality of public services, as seen in Box 9.

Box 9. Review on IT services in the Slovak Republic (2016)

In 2016, the Slovak Republic conducted a spending review to identify ways to improve efficiencies in the public sector by examining how the public administration manages and integrates IT services. Specifically, this comes in context to the state spending a significant level of resources on external suppliers instead of its internal staff where externally managed projects led to twice the amount of work to correct as compared to internally managed projects. Importantly, digitisation is one of the biggest priority (e.g. electronic identity cards) and finding ways to optimise digital services was flagged as an important agenda by the government. The spending review aimed to identify measures that can create additional fiscal space and improve efficiency and quality of public services across the government.

Graph 12: Expenditures by purpose in 2010 – 2015



The review looked at international benchmarks (e.g. European DESI Index on internet connectivity of public services), public satisfaction surveys and looked upon historical spending trends in IT (e.g. capital and operational expenditure) across the public administration, an example seen in Figure 3. The main findings from the spending review were the following:

- **Identified clear savings measures** by developing a binding cloud migration plan linked with IT budgets of each ministry (immediate savings of EUR 6.8 million in 2017 and EUR 10-15 million each following year), centralising procurement of IT support services (EUR 9-27 million per year) and making procurement of Microsoft license products more effective (EUR 6.5 million per year) by improving its contractual framework to provide room for competition among suppliers and recommending that software requirements exceeding the scope of the results be paid for by each ministry.
- **Improving the value of public services** by looking at process improvements that can enhance the quality of digital services to the public. Examples include, improvements in security, electronic submissions, creating a binding user experience manual for all government services, using electronic ID systems for businesses and establishing alternative ways for identity authentication.
- **Management improvements** by proposing evaluation rules for investments, central management of IT procurement (e.g. licenses), publishing pipeline of IT projects and creating a publicly available status report on public Information Communication Technologies (ICT).

- **Strengthening use of data and assessment** by recommending further analysis of specific spending categories on IT services (e.g. interdepartmental programmes), establishing a Cost Benefit Analysis (CBA) methodology for IT initiatives, separating telecommunication services from postal services in economic classification, update database on all IT systems in public administration and processes to improve data collection of IT operational expenses across the public administration.
- **Improving analysis** of IT expenditure across the public administration by requiring CBA of all future IT projects above EUR 10 million, analysing services that can be digitised, and analysing usage and procurement of software licences (e.g. Microsoft, Oracle, SAP).

In some instances, spending reviews have looked at procurements as a lens to identify improvements in efficiencies, effectiveness, and cost savings. Oftentimes, procurements in spending reviews serve as a sub-item to the larger spending review agenda and serves to identify savings within the policy area or topic that is being reviewed, such as in public IT services or in Health spending as seen in Box 10.

Box 10. Analysing procurements in spending review practices in OECD countries

Procurements have served as an area to identify improvements in efficiency, effectiveness and savings to address specific policy topics during the spending review process. Countries have approached recommendations on procurements in different ways:

- **Slovak Republic**
 - A spending review on the use of IT in public services have identified ways to centralise procurement of IT to generate savings to allow for economies of scale and improved cost-effectiveness of procurement contracts.
 - A spending review on healthcare services have recommended centralisation of procurement of pharmaceuticals to manage cost efficiencies moving to a model where the state health insurance company (VšZP) has an increased volume of central procurements (13% to 25%).
- **Germany**
 - A spending review was conducted to identify improvements in efficiency of procurement processes across all Federal Ministries. Recommendations included improved coordination of central procurement offices in ministries and trainings to improve the quality of the experience of the procurement process for vendors.

Methodology for review

Similar to reviews on personnel costs, selective reviews on administrative and operational spending have relied upon a clear scope and a set of objectives. Typically, this has included a review on a specific spending entity such as a Ministry (e.g. Ministry of Defence) or a programme (e.g. prison services). In other instances, a review was based on a cross-cutting theme that looked at a specific function that touches across all parts of government (e.g. management of IT or management of real estate).

As there are many different factors that should be taken to account when conducting a review on administrative and operational costs, countries have relied upon a strong base of information to inform decisions. This has included historical spending trends on goods and services, surveys and interviews with

key stakeholders, project documents, regional benchmarks on provisions of services (e.g. connectivity of public services) or purchases of goods and services made by other countries, data on contracts and comparisons with the private sector in costs and management of resources.

Key considerations for carrying out selective spending reviews in administrative and operational costs

Based on the OECD country experiences in reviewing administrative and operational costs, this section presents the key guiding questions and indicators that Chile could use if/when carrying out selective spending reviews in this area.

Key guiding questions

- *Alignment to priorities*: How are resources spent and managed aligned to the Ministry and Government's priorities? Has the government set the right goals for such spending in the public sector?
- *Historical spending trends*: What has been the previous pattern of spending? What are the main cost drivers for such spending?
- *Governance*: What is the current approach to such spending (e.g.: procurements, real estate management) and the division of responsibility in decision-making and implementation? Is there good governance in the use of such spending (e.g., governance on IT investments)? Are there processes, roles and incentives to ensure optimal and efficient execution of spending?
- *Comparison to benchmarks*: What benchmarks (e.g.: private sector, neighbouring countries in the region) can be looked at for comparison in relation to procurement of goods and services, management of real estate?
- *Sustainability and Innovation*: How can sustainability be achieved? What role can be given to innovations, external financing and reduction in bureaucracy and paperwork? Are there alternative options that can provide more sustainability and affordability over the medium and long-term?
- *Process improvements*: Are there right incentives for optimising cost-efficiency?

Possible sources of information

- Surveys and interviews with key stakeholders
- Relevant project documents
- Relevant contract documents (especially those that have been exempted from public tendering)
- Historical and current spending trends in specific spending area (e.g. IT spending, procurements on specific good/service)
- Benchmarks on spending area (e.g. connectivity of public services, procurement on specific goods/services) in the private sector or in regional and neighbouring countries
- Previous evaluations and audits

Conducting selective spending reviews in Chile: The way forward

Recommendation	Action	Responsible authority	Start date	End date
A.1. Clearly define the roles for carrying out selective spending reviews	A.1. Have official mandate to carry out a series of selective SRs	The Minister of Finance	November 2023	November 2023
	A.2. Clearly determine the responsibilities of each actor and set up formal governance arrangements	DIPRES (with the approval of line ministries)	December 2023	December 2023
A.2. Clearly define arrangements for carrying out selective spending reviews	A.3. Use a standardised ToR to establish clear objectives of each review	DIPRES (prepares the ToR to send to line ministries)	December 2023	December 2023
	A.4. Have clear working rules in place to carry out spending reviews	DIPRES (prepares the rules and has them approved)	December 2023 (prepare an outline for the rules)	December 2023 (have them approved)
	A.5. Include a savings target in the ToR for the selective reviews	The Minister of Finance/Government	December 2023/January 2024	January 2024
A.3. Present the findings of each spending review in a similar way	A.6. Use a standardised template for the selective spending review reports	DIPRES	December 2023 (have the template ready)	June 2024 (use the template for the final reports)
A.4. Ensure clear link to the budget process	A.7. Make sure that the results of the spending reviews can be used to reallocate resources within the fiscal year or considered as part of the next budget negotiations	DIPRES	February/March 2024	June 2024
A.5. Monitor the implementation of findings from spending reviews	A.8. Make sure that the chosen policy options/recommendations are reflected in the budget of a given line ministry by analysing budget trends and performance information	DIPRES	September 2024/February 2025 (Reviewed Annually or bi-annually)	Until end of implementation period agreed in Spending Review
	A.9. Establish a formal monitoring process for following up on the implementation in a systematic way. This could include formal reports accessible to political leaders and the public.			
A.6. Maintain a list of topics that can deliver quick savings	A.10. Have clear political mandate to regularly carry out selective spending reviews	Minister of Finance	Ongoing	Maintain mandate (or new mandate for each new Spending Review cycle)
	A.11. Keep a list of suitable topics and use a standardised template to do so	DIPRES	Ongoing	Constantly maintain and update list of suitable topics

Recommendation 1. Clearly define the roles for carrying out selective spending reviews

Action 1. Seek an official mandate to carry out a series of selective SRs

OECD experience shows that clear leadership from Ministries of Finance is essential for the success of spending reviews. This means that the Ministry of Finance is involved in each spending review and is responsible for the overall framework around the review process.

For some countries, it has worked well to have a formal mandate around spending reviews, specifically where it has been challenging to engage stakeholders in the process. Within such a mandate, it should be clearly outlined that the Ministry of Finance oversees the review process, as well as what is expected from other important stakeholders. As an example, such a mandate can take the form of a ministerial order and be issued at the same time as the terms of reference for a review is approved. It is important that such a mandate is not too rigid as it may limit the effectiveness of spending reviews in the long term. The spending review framework should remain flexible to fit different fiscal contexts.

- ⇒ Receiving a clear mandate from the Minister of Finance to carry out the selective spending review exercise is essential. Ideally, this mandate should provide a target for savings (either in monetary terms or in share of total public expenditure)

Action 2. Clearly determine the responsibilities of each actor and set up formal governance arrangements

It is important to have some form of a *working group* and *steering committee* but keeping both of those in a 'simple' form is advised as this will facilitate quick decisions. This means that for selective reviews, the working group should be relatively small, and the role of the steering committee is to ensure high level signoff and political feasibility of the proposed recommendations.

- ⇒ Clearly identify individuals in DIPRES who will have responsibility for implementing and supervising the SR process. Table 3 could be used as support to make sure important actions have a clear responsible staff.
- ⇒ Staff should have formal responsibility of coordinating the spending review process across the administration. The team should be senior enough to be able to effectively engage with senior officials from line ministries but also have sufficient time to overlook the spending review process and consult stakeholders on methodological issues upon request.
- ⇒ Put in place a working group and steering committee for each spending review. The working group should consist of around 2-3 members from the MoF and 2-3 from the relevant ministry or ministries (both from the financial unit and experts within the relevant policy area). It is important to keep the working group at a size that does not hinder efficient decision making. External consultants – that know the spending area being analysed – should be invited to working group meetings when relevant. The chair of the working group should be an independent person.

Recommendation 2. Clearly define the governance arrangements for carrying out selective spending reviews

Action 3. Use a standardised ToR to establish clear objectives of each review

The objectives of each review must be clear from the beginning. Experiences of OECD countries show that having a clear template in place, where the scope and objectives of each review is clearly articulated,

greatly facilitates the review process. If this is not done, there is a risk that the working group carrying out the spending review will disagree on the expected results, scope and objective of the review and spend considerable time discussing this, which can lead to the review taking longer than needed. Likewise, if the scope of the review is not decided on beforehand, it is likely that the working group will try to analyse everything that falls under the spending area instead of focusing on selected issues that are outlined in the Terms of References (ToR).

The ToR should be agreed on before the review starts and approved by political leaders and high-level staff within the Ministry of Finance and the relevant ministry or ministries. Ideally, the Term of References should be presented to the government to create consensus around implementing the findings.

It is specifically important to have a clear ToR for selective reviews that are intended to deliver quick wins. For such reviews, a narrow and clearly defined scope is needed, as well as a clear indication of the expected results (savings target) that the review is to deliver. Likewise, a concise timetable should be included in the ToR for such reviews. Annex C shows an example of a ToR for selective spending reviews.

- ⇒ Use standardised ToR provided in Annex C to establish clear rationale and objectives and assign responsibilities to individual people.

Action 4. Have clear working rules in place to carry out spending reviews

Experience from OECD countries has shown that having clear working rules around how to carry out spending reviews can be beneficial. In addition to formal mandates and legal provisions, many OECD countries issue general guidelines to guide relevant stakeholders through the process of conducting spending reviews. It becomes a reference point for all parties involved and should include a description of the process, benefits of spending reviews and all relevant templates. These guidelines should be regularly updated based on the feedback of all relevant stakeholders. Some countries make the guidelines public and accessible to anyone interested.

- ⇒ Consider using simple guidelines as those shown in Annex E to establish clear working rules around spending reviews.

Action 5. Include a savings target in the Terms of Reference for the selective reviews

Including an *indicative* savings target in the Terms of Reference, which is agreed upon by all stakeholders involved, helps focus the review on the budgetary impact and helps avoid the conclusions of spending reviews that are vague and not implementable. Having a clear savings target facilitates the implementation and monitoring of the results of the spending review, which remains one of the key challenges in many OECD countries.

- ⇒ Have consensus around an indicative savings target that is included in the ToR *before the review starts*. This can greatly facilitate the work of the working group/team that is doing the review and prevent discussion on spending pressures during the review.

Recommendation 3. Present the findings of each review in a similar way

Action 6: Use a standardised template for the selective spending review reports

It is important to present the findings of each review in a simple and clear way. This is particularly important for selective reviews that should have clear results that are easily implementable in the budget. A common challenge in OECD countries is how the findings of spending reviews are presented; in some cases

countries present hundreds of pages for a single review and in others, the findings from a review are not presented in a clear way. It is important for the working group/team that is doing a review to have a template to fill out for the final report (Annex B). This also leads to spending reviews being presented in a similar way and for those who read the reports to understand better the logic behind the review. If a spending review is presented publicly – which can also be beneficial and increase the chances that findings will be implemented – having a standardised way of presenting the findings is also beneficial. A simple and clear presentation of findings also allows for ease of review by key decision makers.

- ⇒ Use the templates in Annex B to present the findings of the selective spending reviews.

Recommendation 4. Ensure clear link to the budget process

Action 7. Make sure that the results of the spending reviews can be used to reallocate resources within the fiscal year or considered as part of the next budget negotiations

Generally, it is very important to ensure clear link between the spending review process and the budget process. However, for selective spending reviews that are to deliver quick results, this can mean that at times there may be need to conduct targeted reviews when sudden budgetary pressures arise, while in other instances, selective reviews are conducted in a scheduled manner such that the results are ready before major budgetary decisions take place. Therefore, when it comes to selective spending reviews, it is important to maintain certain flexibility but also ensure a clear link to the budget process.

- ⇒ Based on the current budget timeline, a final spending review report should be approved by political leadership so that there is time to implement the findings before the aggregate expenditure ceilings are set in June. This allows sufficient time to reflect the spending review results in the draft budget before it is sent to Congress by the end of September.
- ⇒ Several individual selective spending reviews may run on a rolling basis during the same year. Depending on the scope of the review, it may start or finish at different points in time to not take up all the capacities from the Ministry of Finance and line ministries. The most important thing to keep in mind when doing spending reviews for identifying savings is that they can take place at any point in time during the budget year, depending on the needs of the Government.
- ⇒ It is important to consider the results of spending reviews during budget negotiations to ensure they are reflected in the budget. This is easier to do when the spending review process is aligned with the budget timeline. The Ministry of Finance needs to ensure the reallocation is realised in the budget process, by analysing the medium-term spending ceilings and performance data.

Recommendation 5: Monitor the implementation of findings from spending reviews

Action 8. Make sure the chosen policy options/recommendations are reflected in the budget of a given line ministry by analysing budget trends and performance information

Monitoring the implementation of spending review results remains a challenge in many OECD countries. The relevant line ministry is responsible for implementing the results of each spending review, based on what political leaders decide. It is however important for the Ministry of Finance to monitor how the results from reviews are being implemented. This should be done by analysing budget trends annually and over the medium term, as well as performance information when relevant. It is essential that line ministries are held accountable for implementing the findings of reviews.

- ⇒ Use existing performance information to ensure efficiency and effectiveness measures
- ⇒ For selective spending reviews, it is important to analyse annual budget trends and check if savings have been realised
- ⇒ Have ongoing discussions with line ministries on the importance of showing results in the budget

Action 9. Establish a formal monitoring process for following up on the implementation in a systematic way

Eventually, Chile should put in place a more formal monitoring mechanism where the findings of spending reviews can be monitored in a systematic way. This can include implementation reports, accessible to political leaders and the public. Having this in place can encourage line ministries to implement the findings of spending reviews.

- ⇒ Develop clear indicators for implementation assigning responsible actors (e.g. line ministry) and targets (e.g. savings targets) to be achieved in the medium-term (3-5 years).

Recommendation 6. Maintain a list of topics that can deliver quick savings

Action 10: Have clear political mandate to regularly conduct selective spending reviews

Political buy in and involvement in spending reviews is essential for the success of the process. This does not mean that political leaders should be involved in all stages of the review process – this cannot be expected - but rather that they endorse and support the overall framework and each spending review. It is quite common in OECD countries to have strong support for the spending review process at the level of civil servants, but not the same support (or knowledge) of the review process at the political level. This usually leads to one of the two scenarios; recommendations from spending reviews are not implemented or spending reviews that do not deliver any specific results.

With the difficult fiscal context currently facing most countries, this is an ideal time to build up political consensus around spending reviews. By carrying out such reviews, governments have a tool in place that can deliver *informed spending cuts*. Having this political commitment in place is essential for spending reviews to have the desired impact and become an integral part of the budgeting process.

To ensure political commitment, it is crucial to continue communicating the benefits and importance of spending reviews to policymakers, emphasising how they can lead to better resource allocation and more efficient governance. Building awareness and understanding of the positive outcomes associated with spending reviews can help generate support and political will. This can be achieved through organising workshops, providing leaflets and continuing on-going communication with relevant officials and politicians.

Importantly, experiences from OECD countries that regularly carry out selective spending reviews show that having strong political support and commitment is essential. If this is not the case, it is very likely that the findings of the selective reviews will not be implemented in the budget. This is particularly important for identifying suitable areas for selective reviews as there needs to be political backup both from the Minister of Finance and the relevant line minister(s) for analysing the spending area.

Action 11: Keep a list of suitable topics and use a standardised template to do so

Line ministry involvement in the spending review process is essential. Having strong analytical knowledge and backup of line ministries in the spending review process can greatly improve the overall framework. One way to increase the involvement of line ministries is to provide them with an opportunity to suggest

topics that they consider fit for selective spending reviews by filling out a template (Annex A). The Ministry of Finance may also use the same template to suggest suitable topics for spending reviews.

In the early years of the implementation of spending reviews, it is natural to encounter some resistance from line ministries to participate in the spending review process. Typically, this resistance stems from the fear of budget cuts or being held accountable for the results of the spending reviews. It is important to communicate that spending reviews are not only a tool for the Ministry of Finance but also for line ministries to better understand how the funded initiatives are performing and whether they are achieving the intended results.

Communicating the value of spending reviews to the Government and line ministries is essential, where they are endorsed as a tool that allows line ministries to analyse its spending with the backup of the Ministry of Finance and allow for promoting new priorities while also detecting inefficient spending. As such, spending reviews are valuable for the Government to maximise the resources available to it and to identify funding that can be used for better purposes, as well as a tool for creating savings options and increasing the effectiveness of spending.

In OECD countries, it is quite common that line ministries are involved in suggesting topics for spending reviews. However, it is also quite common that they point to topics that are not relevant for spending reviews and will not deliver any substantial results. Having specific criteria for picking topics that are suitable for selective reviews (Annex D) as well as a template for line ministries to fill out (Annex A) can be very beneficial in guiding line ministries in the right direction during the topic selection process. By assessing each topic according to certain indicative criteria, the government can better identify whether the suggested topics are likely to be successfully carried out and whether the policy options can be implemented.

Building a pool of suitable topics for selective spending reviews can be very beneficial for the Ministry of Finance. By doing this, an option of suitable topics where there are quick wins can be presented regularly to political leaders and they can choose areas they would like to focus on. This also simplifies the often-difficult topic selection process for the Ministry of Finance and gives them a pool of options to select from.

Annex A. Spending reviews – Template for line ministries

Spending reviews – Template for line ministries

The purpose of this template is for line ministries to identify areas within their spending envelopes where there are opportunities for quick efficiency gains as part of the budget preparation process.

Element	Explanation	Description																	
Subject	What area of spending is being reviewed?																		
Background	Why is this area suitable for a review? What are the key challenges within the area? What are the spending trends within the area? What opportunities exist to deliver services in a more efficient/effective way?																		
		Policy option A					Policy option B					Policy option C							
Suggested findings and recommendations	What can be the main findings of the review? What reforms/actions can be recommended to improve spending within the spending envelope?																		
Budgetary scope	What budgetary impact can the proposed recommendations have over the next years?																		
			2022	2023	2024	2025	% change		2022	2023	2024	2025	% change		2022	2023	2024	2025	% change
		Baseline (forecast)						Baseline (forecast)						Baseline (forecast)					
		Recommendation						Recommendation						Recommendation					
		Net savings						Net savings						Net savings					
		Post reform forecast						Post reform forecast						Post reform forecast					
Stakeholders	Which areas of government, public bodies and other target groups are affected by the suggested changes? Who will be involved in the spending review?																		
Timeline	When can the proposed recommendation be implemented?																		
Contact person	Who is responsible for the spending review? Who is responsible for implementing the recommendations?																		

Annex B. Final Report Template

Spending reviews – Final report template

1. 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?

2. 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?

3. 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 below)?
- C. What costs are associated with the realization of these savings (see table below)?
- D. What legal, organization, or operational changes are required?

4. Performance Targets

- A. How is progress in implementing these reforms to be measured?
- B. What should the targeted level of performance by 202X?

Spending Review Recommendations: Financial Impact

Review area	2023	2024	2025	2026	% change
Baseline (forecast)					
Recommendation					
Net savings					
Post reform forecast					

Annex C. Terms of References

Selective spending reviews – Template for ToR

Title of the spending review

[Title of Spending Review]

Objective

The 20XX spending review process will analyse expenditures within the area ofto:

- Identify potential savings measures of at least X% in the 20XX budget (and onwards) to assist the government in meet its medium-term fiscal targets
- Analyse how well expenditure is aligned with the government's policy objectives
- If programmes are delivered effectively and efficiently managed

(note: It is important to include a clear savings target to help focus the spending review process into actionable budgetary outcomes)

Key budgetary issues and challenges within the area

Examples of key budgetary issues and challenges:

- I. Foreseen cost overruns over the medium-term
- II. Duplication of function (e.g. ministries overpaying for software licenses compared to others)
- III. Spending on programme is higher than benchmarks (e.g. regionally, neighbouring countries, private sector)
- IV. Inefficient processes leading to increased time/cost (e.g. high-level of bureaucracy, paperwork that can be digitised, duplication of function that could be centralised)

Budgetary scope

Example: The total expenditure within the area of is X million.

Key issues to be addressed in the spending review

Examples of key issues to be addressed:

- I. To examine recent spending trends and potential spending pressures within the area.
 - a. How will these trends affect the annual and medium-term budget without policy changes?
- II. To examine whether there is scope to improve the efficiency of expenditure.
 - a. Can services or activities be delivered at a lower cost?
- III. To examine if there is low-priority spending within the area that can be reallocated to high-priority areas.
- IV. To examine the overall performance of the programme by looking at available evidence (existing performance information, evaluations).
- V. To examine whether there is scope to improve the efficiency of the area through its design or administrative arrangements or remove duplications.

Organization

The review will be conducted by a working group consisting of representatives from the Ministry of Finance and representatives from the Ministry of X. The working group will be chaired by a senior official in the Ministry of X. The working group is supervised by a supervisory committee and decision-making committee that approve the final report of the working group. The review process is coordinated by the Value-for-Money team in the Ministry of Finance.

Ministries concerned Members of the Working Group (identify positions and departments/units)

Members of the Supervisory Committee and Decision- Making Committee (identify positions and departments/units)

Timeline

- I. By xx, finalise *Task X*
 - II. By xx, submit the final report to the Supervisory Committee.
-

Annex D. Topic selection criteria

Spending reviews – Template for topic selection

Date	
Last updated by	
Contact person in the Ministry of Finance	

SELECTION CRITERIA											
#	Ministry	Topic	Main challenges within the field	Capacity of the relevant line ministry	Political sensitivity	Timeframe	The size of the topic	Access to relevant data or existing evaluations within the field under review	Analytical capability in the area within the Ministry of Finance	Are potential savings measures realistic?	Contact person in responsible ministry
				<i>Analytical and human resources</i>	<i>Is there sufficient political willingness to analyse the field?</i>	<i>Does it fit within the budgetary timeframe?</i>	<i>Does the area cover sufficient share of the budget?</i>			<i>Can these measures be implemented in the medium-term?</i>	
1											
2											
3											

Annex E. Rules for spending reviews in the Netherlands

The eight rules of Interministerial Policy Reviews (IBOs) in the Netherlands

Interministerial Policy Reviews (IBOs) are official, independent reports, which usually research a social or policy-related problem, with a related budgetary challenge. Different policy options are mapped out based on a problem analysis, detached from the political context. In principle, every year a number of IBOs are executed, which are subject to the following rules:

1. The Ministry of Finance coordinates the IBO-process and publishes the terms of reference which are approved in the Council of Ministers as appendix to the budget memorandum.
2. IBO's are executed by an interministerial working group, potentially supplemented with independent experts, presided over by an independent chairperson.
3. The chairperson is supported by an independent secretariat, consisting of senior civil servants from the Ministry of Finance and the most involved line ministry.
4. The members of the working group participate without consultation or obligation to report back to their superiors.
5. There is a non-veto principle for the policy options proposed in the working group.
6. The working group develops the options neutrally, without value judgment, on account of the politically independent, official status of the research.
7. The policy options are in principle budget neutral and there is at least one policy option with a saving target of 10 to 20%, which is subject to the principle of 'comply or explain.' The saving target forces the working group to develop creative solutions which do not necessarily conform to the beaten tracks and/or exclusively concern an efficiency task. When relevant and desirable, the terms of reference can include the agreement to include an intensification policy option.
8. After completion, IBO's are send to the House of Representatives together with a cabinet response by the most involved ministry.