

## **Staff Papers 2016**

# Spending Reviews in Ireland: Lessons for the future

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#### **Key Findings**

The fiscal and economic landscape in Ireland has changed considerably since the last Comprehensive Review of Expenditure in 2014. Moderate, sustainable, expenditure growth is now planned over the medium-term. However, increasing and competing public service demands will mean managing expenditure is likely to prove challenging. Spending reviews can support better policy choices by broadening the Government's toolkit within the budgetary process.

Since the beginning of the economic and financial crisis, spending reviews have played an important role in Ireland's efforts to restore expenditure policy to a more sustainable footing. However, the purpose of future reviews will move from improving the deficit position to ensuring all expenditure is considered when Government is making budget decisions.

The purpose of spending reviews is to increase the fiscal space available to government for new, high priority, policies. By systematically examining baseline expenditure using available evidence and data, the increasing tendency to focus only on incremental improvements in expenditure can be countered.

Spending reviews should be used to further embed the principles of expenditure efficiency and effectiveness into the wider budget process. This can be facilitated through extending the availability of relevant evaluations and performance information and ensuring such evaluations become central to the budgetary process.

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#### 1. Introduction

The fiscal and economic landscape in Ireland has changed substantially since the last Comprehensive Review of Expenditure in 2014. The recovery in the economy and in public revenues has meant that moderate rates of expenditure growth over the medium-term are consistent with sustainable public finances under the fiscal rules. However, increasing public service demand pressures – arising from issues such as the cost of demographic changes – will mean managing expenditure, even within this increased scope, is likely to prove challenging. The impact of service pressures is exacerbated by the general tendency for public spending internationally to rise as a share of national income. To ensure that fiscal space is available to Government when considering new policies there must be a mechanism in place to identify additional fiscal space within the existing expenditure base, rather than relying solely on the scope for incremental expenditure increases permitted by underlying economic growth.

Spending reviews have been conducted in Ireland on a number of occasions in the recent past to identify savings options for Government. These savings options support better policy choices in the wider context of the budgetary process. The focus of this paper is to assess Ireland's approach to spending reviews against the standard international framework and to identify areas where the process may need to be recalibrated and intensified for the post- crisis period.

The following section sets out the rationale and framework for spending reviews. While there is no one-size-fits-all methodology for implementing spending reviews, by leveraging cross-country analysis conducted mainly by the OECD and the EU Commission it is possible to identify a core process and key characteristics that should be considered when developing an approach. These core processes and characteristics are discussed in Section 3. Section 4 gives an overview of the recent Irish experience by reference to these core characteristics. The final section sets out some broad lessons for future reviews in Ireland.

<sup>&</sup>lt;sup>1</sup> The IMF (<u>Fiscal Monitor</u>, <u>Expenditure Reform</u>: <u>Making Difficult Choices</u>, <u>2014</u>) highlights Baumol's Cost Disease and Wagner's Law as two mechanisms by which government spending can grow as a share of the economy due to relative prices for public services and increasing demand for public services arising from economic growth.

### 2. Rationale for spending reviews

The purpose of a spending review is to increase the fiscal space available to government for new, higher priority policies. This is achieved by systematically examining the scope for savings within baseline expenditure using available evidence and data and consequently by identifying spending programmes that are inefficient or ineffective in addressing priority economic or social goals. This approach counters the increasing tendency to focus only on incremental improvements in expenditure as part of the budgetary process.

While spending reviews were conducted in a number of countries prior to the global financial crisis, their use became widespread in the period during the crisis.<sup>2</sup> As overall resources become more constrained through, for example, increasing demographic-related costs and the prevalence of fiscal rules, the 'fiscal space' available to governments for new, higher priority policy measures is increasingly limited.<sup>3</sup> Spending reviews generally form part of the suite of budgetary reforms introduced to counter the inherently incremental nature of multi-annual public expenditure management. Such reviews are also seen as a useful means of regularly realigning spending with government policy priorities by identifying ineffective or low priority programmes.

While a range of different approaches tailored to different requirements have been implemented internationally, there are some core principles in common. The review of baseline spending (i.e. the whole stock of government spending) may focus on increasing the efficiency of existing public service outputs or reducing resources, and consequently outputs, in a particular area of spending. The former – referred to as an 'efficiency', 'tactical' or 'operational' review - examines the scope for costs savings while maintaining services through increased efficiency, modernisation, reform and innovation. The savings from this approach may take more time to deliver as processes are changed and may also involve some initial costs ("spend to save"). The latter, 'strategic', review involves a strategic assessment of spending and policies to reduce services or transfers in selected areas based on particular criteria, usually by identifying ineffective and/or lower priority areas of spending. Generally, spending reviews are based on some combination of these two approaches

<sup>&</sup>lt;sup>2</sup> Prior to 2007 only the Nordic countries, the Netherlands and the UK had engaged in large scale spending reviews giving tangible results within the EU. In contrast there are currently 8 euro area countries engaged in various stages of spending reviews (<u>EU Commission</u>, 2016).

<sup>&</sup>lt;sup>3</sup> 'Fiscal space' is defined as the projected amount of resources available to the Government for additional expenditure and/or tax reductions, while ensuring compliance with the fiscal rules, specifically the so-called Expenditure Benchmark (<u>Department of Finance, 2016</u>).

While spending reviews have been used to identify areas where increased resources are required, this should be viewed as a separate, parallel, task to avoid weakening the purpose of a spending review. The key objective of spending reviews is to create additional fiscal space by examining base expenditure and this should be strictly maintained to keep the review process discrete and focussed. The options generated by these reviews can then feed into the broader budgetary process. The simultaneous consideration of new policy proposals, including extending existing policies, and options identified through the review process should be conducted under the normal budgetary process. These dual processes should result in a better alignment of resource allocation with government strategies and priority policy areas and gives a clearer sense of the trade-offs involved to fund new policies.

#### 3. Main features of spending reviews

A spending review can be broadly split into 'design' and 'conduct' phases. The design phase determines the high level framework that guides the review and does not necessarily change between reviews. The 'conduct' phase is specific to each review round and operationalises framework design decisions on the scope, savings, roles and responsibilities and role of information and evaluation.

Having considered the international experience in conducting spending reviews, the OECD (2013) identifies four stages for spending reviews (Figure 1).<sup>4</sup>

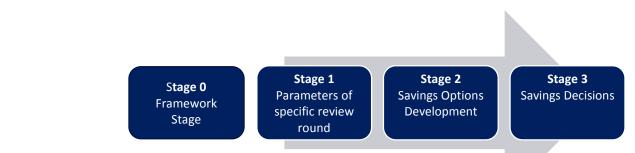


Figure 1: Stages of a Spending Review

<sup>4</sup> Spending Reviews, OECD (2013). Working Party of Senior Officials, GOV/PGC/SBO(2013)6.

http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=GOV/PGC/SBO(2013)6&doclanguage=en

By identifying the underlying common structure of spending reviews the key choices facing countries are clearer. A clear map of these choices across all stages of the review allows for consistent refinements to be made at each stage if changed circumstances require a different review approach. Furthermore, clearly identifying the requirements at each stage also facilitates planning, where considerations at different stages can influence choices either earlier or later in the process. This ensures that, for any given review round, a consistent set of expectations and objectives are applied.

The initial stage – identified as the Framework Stage – is the point at which the key, high level design features of the review are determined, e.g. the scope of the review, role and responsibilities of key stakeholders, timetable, methodology and deliverables. Having established a broad approach to reviewing expenditure, the majority of countries generally avoid re-visiting the structure of the review for each review round. Having set out a high level plan for the review, this initial stage also includes a commitment where a clear decision on proceeding with the review is made at the political level (EU Commission, 2014). Highlighting the decision to undertake the review in this manner emphasises the political commitment, and clear communication of such, necessary for a successful review process. The approach to integrating the review process and results into the regular budgetary and/ or medium-term expenditure framework processes can also be determined.

Having set out the overall design of the process, the following three stages collectively relate to the 'conduct' of the review, and set out the operation of a particular review round. While the Framework stage determines the organisational parameters that must be considered, the following stage sets the specific parameter values or requirements for the particular review round in question, e.g. the level of savings options to be identified for that particular spending review round.

Having set the round-specific parameter values, 'Stage 2' is the point in the process where the review teams evaluate programmes, processes and/or institutions in line with the parameters set at the previous stage to identify a coherent list of savings options. This stage can be further sub-divided into three separate steps (EU Commission, 2014). The 'diagnosis' step maps out the main characteristics of various expenditure categories (outputs, objectives, target population, drivers etc). This is an

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<sup>&</sup>lt;sup>5</sup> *Public Spending Reviews: design, conduct, implementation*, EU Commission (2014). Economic Papers 525. http://ec.europa.eu/economy\_finance/publications/economic\_paper/2014/pdf/ecp525\_en.pdf

important step as savings potential is not necessarily linked to respective share of overall spending and a below average spend should not exclude an area from review. Existing, relevant analysis should be leveraged to facilitate the identification of spending areas to be assessed in detail for savings. The 'formulation of options' step identifies the impact of specific options proposed for a particular area on savings and policy impacts. A 'feasibility' assessment, including the cost of implementation, risks, time horizon for implementation, spillover effects, etc. should then be undertaken to produce an implementation roadmap for consideration. Following this analysis review teams prepare a package of savings options setting out the full implications of proposed policy decisions.

Stage 3 is the point at which the savings options are presented to decision makers. The choice of final decision makers should be decided at the design stage. Ultimately decisions usually rest at the political level and typically the executive. Decision makers can vary between processes and indeed within processes, as decisions for a particular ministry are normally taken with the agreement of the relevant spending Minister. Decisions related to purely efficiency savings, where outputs are unaffected, may be delegated to official level. All analysis relating to savings options should be made available to decision makers.<sup>6</sup>

The EU Commission (2014) also include a final *ex post* evaluation of the review process against savings targets and the initial strategic mandate as part of the review process.

The following features should be considered at the framework design stage of a spending review, and will have implications for the operation of the review through its remaining stages.

#### 3.1 Scope and coverage

The scope and coverage of the review area are key aspects that should be clearly determined at the initial framework design stage. The balance between the efficiency and strategy review elements should be clearly determined at the initial framework design stage. The mix adopted can be guided

<sup>&</sup>lt;sup>6</sup> For example, the manner of implementation, and other elements assessed as part of the feasibility assessment, can have a bearing on final savings decisions. A decision to changing business processes to deliver efficiency savings may require piloting and experimentation prior to full roll-out. While prudent, this approach can cause considerable delays between a decision being taken and the delivery of savings.

by the likely scale of savings options to be delivered. Efficiency reviews alone – focussing on mechanisms to reduce costs while maintaining outputs - typically deliver lower levels of savings than strategic reviews - which also identify areas for cost reductions through reducing outputs - or some combination of the two.<sup>7</sup>

A further consideration is the type of expenditure to be covered by the review as even the reviews termed 'comprehensive' cannot review all expenditure by government in a single review round. A comprehensive review can be seen as one that is not limited by any *ex ante* list of review topics. The review covers all relevant institutions and review teams identify the most relevant review topics to deliver savings, whether programmatic, process or agency. This approach can be useful to identify significant savings options in the relatively limited timeframe of a single review round. A 'selective' review is limited in scope to a predefined range of topics determined at the design stage. The scope of 'selective' reviews can be broadened by planning to review different areas of spending over a number of consecutive review rounds. Programme or process reviews may be agency specific or horizontal, i.e. examining a group of related programmes across two or more agencies. The selection of review topics can be decided by either central decision makers or by review teams based on *ex ante* perceived probability of identifying significant savings. An alternative approach is to create a rolling review cycle that evaluates all expenditure over a number of review rounds.

It is important to stress that spending reviews, however intensive and comprehensive, cannot be the sole tool used by government to achieve greater control over or to reduce government expenditure. Public service pay agreements, public service and industry contracts, investment reviews, and other such mechanisms can operate in parallel to spending reviews while creating fiscal space and leading to more efficient and effective spending outcomes.

#### 3.2 Setting of savings target

Having considered the scope, or 'width', of the review, consideration should also be given to its 'depth'. The scale of the savings should be calibrated to the government's budgetary objectives, whether annual or multi-annual in nature. Returning public finances to more sustainable levels over

<sup>&</sup>lt;sup>7</sup> Typically even an in depth efficiency review is unlikely to yield savings of more than 2 percent of government expenditure. (OECD, 2013)

the crisis period necessitated considerable consolidation in most countries where reviews were undertaken. However, the scale of options sought in a review can be considerably smaller in economic and fiscal circumstances where the focus is on creating fiscal space for new policy proposals. Having established whether targets will be set in the design stage, the annual or multi-annual targets for savings options should be established in the parameter setting stage. The overall target can be determined based on an analysis of fiscal policy, fiscal rules, the ongoing costs of existing policies and the costs of new policies proposed by government. This overall target for savings options can then be used to set minimum targets for ministries. An alternative, more 'bottom-up', approach is for review teams to propose savings options without recourse to top-down targets. The scale of these proposals may be subject to challenge by the central review unit (Section 3.3).

It is generally seen as beneficial to set savings targets or ceilings for each area of spending being reviewed. This is the case even if these targets or ceilings are indicative in nature as the ceilings will ultimately be set by government as part of the decision making process. These targets act as a focus for review teams and maintain the focus on identifying savings.<sup>8</sup>

#### 3.3 Roles and responsibilities of key stakeholders

While different countries have different approaches to how savings decisions are taken at political level, it is clear that buy-in to the review process at political and senior official level is vital if the process is to be successful. Both the finance and spending ministries should have clear roles in identifying savings options. In the absence of strong commitment at top-level, at both the centre and in spending departments, to the successful delivery of the objectives of the spending review, its prospects for success are weak.

A regular review of baseline expenditure creates a more active role for the government and the finance ministry (or ministry with responsibility for overall expenditure policy) in allocating all resources. The finance ministry has a key role in, firstly, designing the spending review framework and then advising the political level on the selection of parameters. Furthermore, it will have an ongoing role in the identification of savings options. This role, and the role of spending ministries,

<sup>8</sup> See Technical Assistance Report - Establishing a Spending Review Process (2015), IMF Country Report No. 15/265.

<sup>&</sup>lt;sup>9</sup> Purely efficiency savings, being concerned mainly with the process rather than outputs, may not necessarily need the same level of political support as the issues raised are not as sensitive.

should be determined at design stage. At either ends of the spectrum, a 'top-down' review is where the ministry of finance identifies savings options with relatively limited input from spending ministries, while a 'bottom-up' review is one in which the spending ministries identify spending options for presentation to the political level. A 'joint' review involves teams comprised of staff from the spending and finance ministries to identify savings options. A 'hybrid' approach requires savings options from both spending and finance ministry review teams.

Aside from the necessary political buy-in to ensure all parties participate in good faith, even for a bottom-up review the ministry of finance must have a central role. In a bottom-up or joint approach, a clearly designated 'command centre' should be located in the finance ministry to co-ordinate the review and take on a challenge role where necessary. This later role involves ensuring that reviews are progressing against the strategic mandate and in line with agreed timetables. There is also a need to advise review teams on technical matters, to ensure methodological consistency and that analysis has been conducted objectively and to challenge submissions and findings where necessary. For strategic reviews, it is vital that the finance ministry has a cohort of staff with not just financial or public finance knowledge but also relevant policy experience.

Where particular expertise is not available within the public service this can be brought in for the review. However, external experts can be more relevant for the delivery of efficiency savings, where new business delivery approaches are to be implemented, than for the identification of ineffective or low priority programmes or policy areas where knowledge of the policy area is relevant.

The role of the wider parliament typically mirrors its role under the budgetary process. In OECD countries the executive tends to take the lead role in deciding savings options. However, stronger analysis and scrutiny by parliament within the annual budget process should also lead to a more involved role in spending reviews.

#### 3.4 Evaluation and performance information

A key challenge for any spending review process is to ensure the availability of relevant, timely and high-quality evaluations of expenditure programmes. However, international experience suggests that spending reviews often have to rely on quite *ad hoc* expenditure analysis as appropriate

evaluations are not always available. This highlights the need to further develop an effective evaluation 'culture' to build the capacity at the centre and in spending ministries to generate the quality information, data and analysis required to support the process.

While it is true that all programmes and processes do not necessarily require the same level of indepth analysis when identifying savings, the availability of timely and accurate performance information and indicators is a crucial foundation for spending reviews. However, while necessary, performance information alone is not a sufficient basis for identifying savings. Such information must be evaluated to determine the extent to which policies are impacting on outcomes. This is one of the most challenging aspects of the spending review process overall, as even with the availability of appropriate data, the interpretation and presentation of that data by different stakeholders involved in the review may often differ.

This is borne out by international experience, where a lack of relevant programme evaluation can hamper review efforts. However, it is not necessarily more evaluation that is needed in many cases, but rather more relevant evaluation. Evaluation relevant to spending reviews should be geared toward the development of savings options. The reports themselves need not explicitly make recommendations for savings but the analysis should be undertaken with the intention of providing sufficient information to allow clear recommendations to be developed within the spending review.

The development of processes to produce performance information and relevant evaluations should be strengthened as part of the wider budget process. Without a stock of existing evaluation analysis, tight timelines can mean that insufficient analysis is conducted over the review round and will likely lead to sub-optimal savings options.

#### 4. Recent Irish experience of spending reviews

Since the beginning of the economic and financial crisis, spending reviews have played an important role in Ireland's efforts to restore expenditure policy to a more sustainable footing. Three comprehensive reviews of expenditure have been conducted in Ireland in the recent past. Given the crisis, the primary focus of these reviews has been to set out measures that would contribute to the reduction of expenditure.

The primary focus of the recent spending reviews in Ireland has been reducing government expenditure to meet overall fiscal targets over the crisis period. The reviews have typically been quite intensive as a result of the scale and magnitude of savings sought, the scope of the reviews and the relatively tight timelines. The economic and fiscal backdrop to this experience contrasts with the recent recovery.

The 2009 Report of the Special Group on Public Service Numbers and Expenditure Programmes (hereafter the Special Group Report) took place in the context of a severely worsening economic context as the economy shrank rapidly and unemployment rose from 4.7% in 2007 to 12% in 2009.<sup>10</sup>

One of the key reforms to the budgetary architecture, announced in the Comprehensive Expenditure Report (CRE) 2012-14, was the introduction of regular spending reviews. Building on international best practice, CREs are intended to constitute one element of a framework of interconnected procedures designed to ensure that the limited public resources available to the Government are being used to efficiently deliver effective public services to citizens. The purpose of these spending reviews is expected to contribute to how the overall volume of resources available are to be allocated to individual Departments over a number of years. In order to seek to support these resource allocation decisions, spending reviews are intended to be informed by relevant evaluations of the effectiveness and efficiency of programmes and agencies, based on information relating to how well programmes have been performing over a number of years.

The CRE 2012-2014 was undertaken in the early phase of the EU/IMF Programme in 2011. The CRE 2015-2017 was underway as the economic and fiscal position was not only recovering but doing so

<sup>&</sup>lt;sup>10</sup> http://www.finance.gov.ie/news-centre/press-releases/report-special-group-public-service-numbers-and-expenditure-programmes

relatively quickly in 2014.<sup>11</sup> This allowed the Government to outline modest increases in expenditure in the subsequent budget rather than the initially planned reductions.

The design of the review processes changed considerably between the Special Group and CRE processes. This was mainly because the CREs were to be integrated in the reformed expenditure framework and planned to take place on a periodic basis. As such, they are designed to be part of normal budgetary and expenditure management practice and to support the Medium-Term Expenditure Framework by allowing for the examination of baseline expenditure alongside new policy proposals to generate better policy choices.

#### 4.1 Scope and coverage

The recent Irish spending reviews have been 'comprehensive' in the sense that they are not limited to an *ex-ante* list of review topics. In assessing the scope for savings in each area of expenditure, the Special Group considered each programme from first principles insofar as possible based on what was sometimes partial and incomplete information and data. In all cases, the Group's analysis had regard to the effectiveness of programmes and the current level of spending. The Group also examined the means of providing services and whether these could be delivered more efficiently through streamlined structures and processes or through outsourcing to the private sector.

The basic structure of Ireland's CRE process was set out by Government in 2011 to examine all areas of spending and assess effectiveness in achieving desired outcomes and value for money.<sup>12</sup> The results of this analysis was to be used in developing multi-annual budget plans with a three-year time horizon. These plans were subsequently presented to Dáil Éireann for debate. This broad approach of reviewing all spending was maintained for the 2014 CRE. This review was designed to:

- provide the Government with a complete set of decision options to realign spending priorities
   with the priorities set out in the Programme for Government; while
- meeting overall fiscal objectives; and

<sup>11</sup> http://www.per.gov.ie/en/comprehensive-review-of-expenditure/

<sup>12</sup> Government's Statement of Common Purpose, 2011 – 2016.

 exploring new and innovative ways of delivering Government policy in a reformed public sector.

In Ireland, the CRE process was established as one part of a multifaceted approach to expenditure policy. While expenditure on public service pay and capital investment were not included under the spending reviews they were not excluded from examination. Instead, these elements of public expenditure were examined under different processes, including, for example, the Lansdowne Road Agreement and *Building on Recovery: Infrastructure and Capital Investment 2016-2021*.

#### 4.2 Setting of savings targets

In 2009 the consolidation path for 2010 and 2011 implied a €3 billion reduction in current spending, as well as a further €1.75 billion in capital. While guided by these *ex ante* estimates, no explicit savings targets were set for the Special Group. Full-year expenditure saving options of €5.3 billion were identified by the Special Group but they emphasised that these proposals did not represent an exhaustive list of available policy options.

The subsequent CREs were informed by the fiscal targets agreed under the EU/IMF Programme of Financial Assistance and the Excessive Deficit Procedure deficit targets. The introduction of a medium-term expenditure framework (MTEF) including multi-annual Ministerial Ceilings meant that savings targets were implicit in the Ministerial Ceilings.

The 2014 CRE was the first Irish spending review to ask spending departments to identify a certain volume of savings – 5 percent of the expenditure ceilings for 2015 as set out in the *Expenditure Report 2014*. The original aim of setting the ceiling was to ensure that the CRE process provided a sufficient and wide range of options to Government that would allow it to achieve its immediate fiscal objectives and potentially allow it to make room for new expenditure proposals. In the event, as referred to above, owing to the more rapid than expected economic recovery and improvement in the public finances, the savings target did not need to be realised.

It is important to note that while spending reviews over this period provided savings options for consideration by Government, the review processes themselves did not lead directly to reductions in Departmental expenditure. Rather, it was the decisions taken as part of the broader budget

process, in light of overall fiscal policy considerations, that led to reduced aggregate Departmental spending. As the improved fiscal and economic outlook allows for moderate, sustainable, public spending growth, the spending review process can continue to support better policy choices by broadening the Government's toolkit within the budgetary process.

#### 4.3 Roles and responsibilities of key stakeholders

The approach adopted in Ireland has been to put in place a clear structure with specific roles for each of the participants. However, there are distinct differences between the initial review at the beginning of the crisis period and the subsequent reviews, with the Special Group tending toward being more formal and centralised in nature.

The Special Group was essentially an external body of six people and has been characterised as having a 'court like style' working process. In advance of meeting with the Special Group, each line department was invited to submit an evaluation paper of its expenditure programmes. Within the Department of Finance a section with the relevant financial and policy skills and knowledge was tasked with producing a separate evaluation paper. This internal paper was reviewed in advance of the Group meeting with the Departmental review team. Arising from their engagements with Departments and officials from the Department of Finance, and based on their internal assessment of the scope for savings and efficiencies, the Special Group prepared a detailed paper in respect of each Ministerial Vote Group setting out the Group's considered views on each area.

The composition and role of the central group responsible for the CRE processes was considerably different to the review under the Special Group. Both CREs have been led by a high-level Steering Group chaired by the Department of Public Expenditure and Reform and constituted by the senior officials from the Department of Public Expenditure and Reform who have responsibility for overseeing public expenditure and by senior political advisors. An innovation in the 2014 exercise was that the Steering Group was supported by a Working Group of senior officials from the Department of Public Expenditure and Reform. In 2014 the Working Group managed the day-to-day operation of the CRE process meaning that the Steering Group was in a better position to have an overview of how the CRE was progressing and to keep Government informed of the issues that had been addressed and that were arising.

In terms of how the spending reviews were organised, a feature that was common to each of them was that Departments had primary responsibility for evaluating every budget programme for which they were responsible, including those delivered by Agencies under their aegis.<sup>13</sup> However, the spending reviews differed in terms of central leadership and the functions of the expenditure management sections within the Department of Finance and, subsequently, in the Department of Public Expenditure and Reform.

The CRE process, unlike the Special Group, formally invited submissions from members of the public and when these were received they were passed on to the relevant Department for their consideration. Final decisions were made by Government and presented to the Oireachtas as part of the annual budget process.

#### 4.4 Evaluation and performance information in Ireland's spending reviews

The basic approach adopted in Ireland in each of the spending reviews has been one under which departments prepare submissions using guidance from the Department of Finance and subsequently the Department of Public Expenditure and Reform. These central departments provided a challenge role and in some instances conducted internal reviews, including reviews of horizontal or crosscutting issues (issues that are common to two or more Departments such as Science and Innovation, Enterprise Supports or the cost-effective delivery of public services at local level).

In order to ensure that the spending review processes were based around key evaluation questions, a core element of the approach was the development of templates for completion by spending departments. These templates focused on issues of efficiency and effectiveness and were linked to the information base being developed under the parallel performance budgeting initiative. The performance budgeting initiative sought to strengthen the focus upon what is being delivered with public resources and to build this information into the policy making process, more generally, and into spending reviews, more specifically.

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<sup>&</sup>lt;sup>13</sup> Departmental reports produced for each CRE are available at <a href="http://www.per.gov.ie/en/the-comprehensive-expenditure-report-2015-2017-2/">http://www.per.gov.ie/en/the-comprehensive-expenditure-report-2015-2017-2/</a>.

The Special Group circulated a very structured template to ensure that the evaluation papers addressed a clear set of questions that were closely linked to the nascent performance budgeting initiative.<sup>14</sup> The template provided under the CRE process was less structured and instead focused on setting out a standard method for assessing spending areas using three value for money 'tests':

- Purpose of the Programme Rationale, objectives and relevance to Government priorities
- Effectiveness is the programme achieving its objectives?
- Efficiency is the maximum being delivered with the resources invested? How can greater efficiency be achieved in the context of lower level of expenditure?

The CRE process was marked out from previous spending plans and budgetary allocations as it was designed to move beyond a focus on spending reductions cuts and numbers. Given the wider context, planned public expenditure reductions were unavoidable, however, achieving spending reductions were not the sole focus of the new approach. Afforded equal importance was the need to refocus priorities and embed expenditure policy within the reform agenda by building on existing analysis and data held by departments, including policy and economic analysis, appraisals of new and changing programmes, and Value-for-Money and Policy Reviews (VFMPRs).

Building upon the experience of the 2011 Comprehensive Review of Expenditure (CRE), the full VFMPRs were complemented with sharper and more narrowly focused assessments. These Focused Policy Assessments (FPAs) are designed to answer specific issues of policy configuration and delivery. The experience of the 2011 CRE showed that it is possible to get a quicker turnaround, to high standards of quality, when specific timelines and specific policy questions are set.<sup>15</sup>

<sup>&</sup>lt;sup>14</sup> This template included high level goals; financial and human resources allocated; key outputs; delivery mechanisms and an assessment of how this programme is meeting its intended policy objectives taking into account the resources allocated; key drivers increasing demand for resources in part and likely pressures in future years and how these might be contained; likely consequences if the programme was discontinued; and possible options for reductions in numbers and programme expenditure, including through administrative efficiencies and scaling-back or elimination of certain programmes.

<sup>&</sup>lt;sup>15</sup> VFM & Policy Reviews (VFMPRs) are conducted in accordance with guidelines developed 2007 (and the Public Spending Code) and are generally carried out thoroughly and are useful in addressing the main value-for-money issues. However, the VFMPR process did not achieve its full initial ambitions, in terms of breadth of coverage and direct relevance for the resource allocation process. It was also quite time-consuming and administratively burdensome and did not lend itself to timely turnaround of reports. Related to this, it was difficult for the VFMPR process to cover a broad range of spending areas in any one or two year period. Drawing on the experiences of conducting the 2011 CRE, the VFMPR process was updated and streamlined, and supplemented with more Focused Policy Assessments (FPAs), which can be conducted more quickly.

Despite the breadth of the expenditure examined under the Special Group and the significant volume of information that was generated, the Special Group Report noted a general deficiency of information regarding the public service impacts associated with particular items of expenditure. This focus meant that the information collected as part of the spending review was more concerned with providing the Department of Public Expenditure and Reform with enough information to be in a position to set out specific measures and their likely yield. Reports produced as part of the CRE processes tended to have a quite short-term focus, i.e. the current levels of demand on a service and the pressures being encountered, rather than setting out how the position has evolved over time and projecting how demand and resources should evolve over the next few years. There was also limited use of existing evaluation work or performance budgeting information. Addressing this gap should be a key consideration in planning future spending reviews and is discussed in the following section.

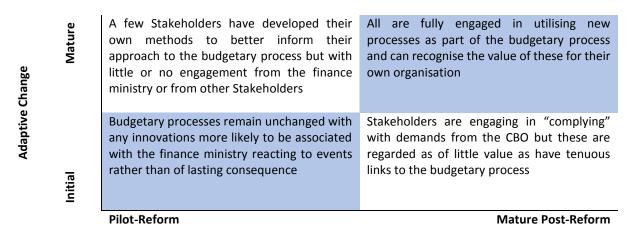
#### 5. Lessons for future reviews

The design of the Irish budgetary framework - and of the spending review process within it – reflects international best practice. While there are some technical design aspects of the review process that may need to be reviewed to better align it with the new fiscal and economic context, the focus now should shift to promoting the main principles supporting spending reviews within the expenditure management process and wider, reformed, multi-annual framework. Further development of the culture of evaluation and efficiency across the Irish system to support spending reviews will be a key challenge for the future.

#### 5.1 Technical and adaptive change in a reform process

The reforms to Ireland's budgetary and expenditure infrastructure, including spending reviews, played a key role in returning the public finances to a sustainable path. The move to multi-annual planning through the Medium-Term Expenditure Framework compliant with the updated fiscal rules and the renewed focus on evidence based policy must be maintained and extended. One means of examining the current state-of-play with respect to these reforms in Ireland is through the lens of technical versus adaptive change (Figure 2).

Figure 2: Conceptual framework: adaptive and technical change in a budget reform process



#### **Technical Change**

The 'pilot-reform' position described above is associated with an initial implementation of reforms to a budgetary system that has remained largely unchanged over a prolonged period of time and within which participants have well-rehearsed and practiced approaches to influencing the budget allocations. The "mature post-reform" stages set out in Figure 2 is associated with a structured approach that has streamlined existing processes and is clear about which bodies are to be included, their roles and why they are to be included.

The second dimension above refers to 'adaptive change' and is concerned with the challenge of ensuring that people change how they think and behave in relation to the problems and challenges they face. In terms of 'adaptive change' the framework seeks to locate the various reforms on a dimension that compares an 'initial' reform position with a 'mature' reform position. The 'initial' position is associated with few stakeholders using the new budgetary process with most ignoring them as they are perceived as having little direct impact on the budgetary process. The 'mature' position is associated with all stakeholders positively engaged with a process that has clear links to the budget.

While Ireland's budget framework can, in most respects, be positioned in the mature post reform stage of technical change, in some respects it remains in the early stages of adaptive change. The

approach has focused on setting out innovative expenditure management and budgetary structures and ensuring compliance with the underlying processes. However, there has been no consistent, across the board shift in culture toward the principles underpinning such reforms.

The design of the spending reviews is somewhat integrated into the overall budgetary framework in Ireland and should adapt to the new economic and fiscal context without significant design changes. 16 However, while the technical elements are in place the focus should now shift to ensuring the culture underpinning these reforms - to maximise expenditure efficiency and effectiveness for all public spending through the use of evidence based evaluation – is significantly more firmly embedded in the regular budgetary processes.

The following sections briefly highlight areas, firstly, how a greater stock of evaluations relevant to spending review objectives can be developed and, secondly, how these evaluations can be better integrated into budgetary decision-making through the expenditure review process. In many respects the aim is to further integrate the key elements of the architecture for expenditure planning and management: the fiscal rules, Medium-Term Expenditure Framework, the performance budgeting initiative and the Public Spending Code.

#### 5.2 Support the development of more relevant evaluation and performance information

To create a stock of evaluations to support the spending review process, a culture of evaluation and efficiency must be further fostered so that evaluation is further embedded as a feature of budgeting. This has improved in recent years with certain Departments undertaking evaluations across a number of policy areas. The degree to which the process integrates performance information and the existing stock of evaluations of policy programmes must also be improved. The need for more relevant evaluation and supporting performance information should be reflected in both the performance budgeting initiative and Public Spending Code. 17

<sup>&</sup>lt;sup>16</sup> The Medium-Term Budgetary Framework document (2014, Department of Finance) gives a detailed explanation of the overall budgetary framework in Ireland.

<sup>&</sup>lt;sup>17</sup>The Public Spending Code is the set of rules, procedures and guidance to ensure Value for Money in public expenditure across the Irish Public Service. The objective of the Public Spending Code is to ensure that the State achieves value for money in the disbursement of public funds.

A detailed review of the performance information provided for the 2016 Estimates process was carried out this year. The purpose of this review was to determine the main types of information being provided and the quality of that information. As a result of this review, detailed feedback was circulated to each of the main Government Departments, along with a guidance note to assist Departments in selecting and reporting on performance indicators. In a new departure, the Government has decided that by the end of the first quarter of each year the Minister for Public Expenditure and Reform will submit a Performance Report to the Oireachtas to provide information on the performance of each Vote and the linkages between results and resources. The Report will lay the foundation for a more systematic engagement by parliamentarians and the public on the impact of public policies and on resource allocation decisions. Spending reviews would benefit from stronger links with medium-term Departmental Statements of Strategy. Multi-annual performance information and targets reflecting policies set out in these Statements would allow for performance planning and monitoring to parallel the process on the resource side through the Estimates process.<sup>18</sup>

The Public Spending Code aims to ensure that the State gets the best possible value for the resources at its disposal. This encompasses economic appraisals for new expenditure proposals and best practice in efficiently planning and managing spending programmes. In addition, it sets out that projects and programmes should only be continued if they are effective in achieving their intended outcomes, which requires good performance monitoring as well as post project review and evaluation. A review of the Public Spending Code is currently ongoing, the results of which could be used to maximise the stock of relevant evaluations. The criteria for selection of review topics and the timing of reviews could be examined to ensure the timely provision of relevant evaluations for spending reviews. The use of FPAs may also be reviewed to assess and promote their role as concise evaluation of discrete expenditure elements.

The dividends of this approach are more likely to be realised if Departments integrate the methodologies set out under the spending review into their annual budgetary negotiations and daily management of resources. The formal evaluation of efficiency and effectiveness could be more widely used in assessing new policy measures in their consideration as part of the budget process.

<sup>&</sup>lt;sup>18</sup> See Boyle, R. Better Use of Public Money: The Contribution of Spending Reviews and Performance Budgeting (2011). State of Public Service Series.

Linking a resource request to clear policy aims (identified under the Statement of Strategy), output targets and key performance indicators would greatly facilitate the comparison of new measures and also the future evaluation of policy measures. This would also mean the performance budgeting initiative, the spending review framework and the Public Spending Code would be mutually supporting.

Finally, to encourage a more widespread culture of evaluation, responsibility for assessing the efficiency and continued effectiveness of particular areas of spending, cannot be driven entirely by the central expenditure function but must be seen as an integral part of the management of spending in sectoral areas. Such an approach will require that Departments have the internal capacity to conduct this type of analysis. In Ireland, the Irish Government Economic and Evaluation Service (IGEES) has been established to support better policy formulation and implementation in the civil service through economic analysis and evaluation. This Service will allow for the existing good practices amongst certain Departments to be disseminated across the system. As set out in the IGEES Medium Term Strategy 2016-2016 (to be published at the end of October 2016), the work programme of IGEES staff will reflect an increasing level of output to inform the policy debate, contribute to better policy outcomes and achieve better value for money for the public. This output will add to the stock of data, analysis, and evaluation held by Departments which could be used to support the Spending Review process.

#### 5.3 Greater incorporation of evaluation and performance information in budgeting

A consideration in the development of CREs in Ireland was to bring together relevant performance information and evaluations of the effectiveness and efficiency of programmes and agencies. A significant challenge over the coming years is to ensure that the tools that have been developed become ever more embedded in resource allocation decision making. The spending review process can play a key role in further developing the culture of evaluation by demonstrating the importance of this information in creating fiscal space for new policies within the budget process.

Spending reviews in Ireland have been relatively intensive and comprehensive processes undertaken within a short period of time. To further normalise this process, and reflecting the likely reduction in

savings sought as the fiscal position improves, consideration should be given to reducing the scope of individual rounds or alternatively extending the timelines of each round.

A more 'selective' approach to individual review rounds could be developed as part of a rolling series of rounds. Alternatively, extending the review to extend over an annual budgetary cycle could also be leveraged to generate considerable information about the full range of expenditure programmes that are being delivered across the public service and subsequent spending reviews could build on this foundation of information. Furthermore following this period of 'diagnostics' at the beginning of the round, an extended review would facilitate the subsequent development of relevant evaluation. Such a review could be knitted into the 'whole of year' budget cycle with key deliverables in line with the timetable.

The changed political landscape in Ireland presents an opportunity to enhance the budgetary process through increased engagement between the Government and the Oireachtas. The need for enhanced engagement by the Oireachtas in budgetary scrutiny is highlighted in the Programme for a Partnership Government, with a number of commitments aimed at ensuring the Oireachtas has a more participatory role in the budget process. This process began with the Summer Economic Statement, which detailed the Government's medium-term strategy for sustaining economic growth and stable public finances. The *ex-an*te role for the Budget Oversight Committee and the sectoral Select Committees should be explored in this context in line with their developing role in the annual budget process.

#### 6. Conclusion

The overall expenditure framework in Ireland is designed based on principles derived from international best practice in this area. The spending review process plays a key part but in the new fiscal and economic context this role can be further developed. The role of spending reviews should be examined with a view to further embedding the principles of expenditure efficiency and effectiveness into the wider budget process. This can be achieved through further leveraging existing and ongoing reforms, including the performance budgeting initiative, the Public Spending Code and the Irish Government Economic and Evaluation Service. This will lead to the increased availability of

relevant evaluations and performance information and ensuring such evaluations support policy decisions in the budgetary process.