



# CHILE

## TECHNICAL ASSISTANCE REPORT—INTRODUCING AND INSTITUTIONALIZING SPENDING REVIEWS

September 2019

This technical assistance report on Chile was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in May 2019.

Copies of this report are available to the public from

International Monetary Fund • Publication Services  
PO Box 92780 • Washington, D.C. 20090  
Telephone: (202) 623-7430 • Fax: (202) 623-7201  
E-mail: [publications@imf.org](mailto:publications@imf.org) Web: <http://www.imf.org>  
Price: \$18.00 per printed copy

**International Monetary Fund**  
**Washington, D.C.**

## **Chile**

# **Introducing and Institutionalizing Spending Reviews**

Teresa Curristine, Laura Doherty, Thomas Gloy, and Jon Sell



**Technical Report**

**May 2019**

The contents of this report constitute technical advice provided by the staff of the International Monetary Fund (IMF) to the authorities of Chile in response to their request for technical assistance. This report (in whole or in part) or summaries thereof may be disclosed by the IMF to IMF Executive Directors and members of their staff, as well as to other agencies or instrumentalities of the TA recipient, and upon their request, to World Bank staff and other technical assistance providers and donors with legitimate interest, unless the TA recipient specifically objects to such disclosure (see Operational Guidelines for the Dissemination of Technical Assistance Information—

<http://www.imf.org/external/np/pp/eng/2013/061013.pdf>).

Disclosure of this report (in whole or in part) or summaries thereof to parties outside the IMF other than agencies or instrumentalities of the TA recipient, World Bank staff, other technical assistance providers and donors with legitimate interest shall require the explicit consent of the TA recipient and the IMF's Fiscal Affairs Department.

# CONTENTS

<b>ABBREVIATIONS AND ACRONYMS</b>	<b>5</b>
<b>PREFACE</b>	<b>6</b>
<b>EXECUTIVE SUMMARY</b>	<b>7</b>
<b>I. WHY INTRODUCE SPENDING REVIEWS IN CHILE?</b>	<b>12</b>
<b>II. INTERNATIONAL EXPERIENCE WITH SPENDING REVIEWS</b>	<b>14</b>
A. Introduction	14
B. Objectives of Spending Reviews	16
C. Types of Spending Reviews	17
D. Key Lessons Learned	18
<b>III. ESTABLISHING THE SPENDING REVIEW FRAMEWORK IN CHILE</b>	<b>20</b>
A. Current Situation in Chile	20
B. Overview of Proposed Approach and Framework for Chile	23
C. Organizing Structure: Roles and Responsibilities	27
D. Recommendations	29
<b>IV. PROCESS FOR CONDUCTING A SPENDING REVIEW</b>	<b>30</b>
A. Introduction	30
B. Stage 1: Prepare Review Parameters	31
C. Stage 2: Analyze Spending and Develop Policy Options	32
D. Stage 3: Decision-Making	36
E. Stage 4: Implementation	36
F. Recommendations	37
<b>V. INSTITUTIONALIZING SPENDING REVIEWS</b>	<b>39</b>
A. Introduction	39
B. Establishing a Legal Basis for Spending Reviews	39
C. Integrating Spending Reviews into the Budget Process	39
D. Linking the Spending Review Process with the Evaluation Framework	42
E. Supporting PFM Reform and Building Capacity for Spending Reviews	44
F. Recommendations	46
<b>VI. NEXT STEPS</b>	<b>47</b>
A. Develop a Concept Note and Reinforce the Spending Review Unit	47
B. Selection of Reviews for FY2020 and Beyond	48
<b>BOXES</b>	
1. The UK's Experience with Comprehensive Spending Reviews	16
2. Targeted Spending Reviews: Types of Review Topics	18
3. Spending Reviews: Lessons from OECD Countries	19

4. Spending Review of Online Education in Denmark _____	34
5. Examples of Possible Measures to Be Considered _____	35
6. Case Study: UK Government Property Optimization 2010 _____	49

## FIGURES

1. Expenditure in Ministry of Education and Ministry of Health _____	13
2. Adoption of Spending Reviews, 2011 to 2018 _____	14
3. Evolution of Spending Reviews in OECD Countries _____	15
4. Options for Spending Review Programs _____	25
5. Proposed Organizational Structure _____	27
6. Integrating Spending Reviews into the Budget Process _____	40
7. Example of a Comprehensive Spending Review Process _____	42
8. New types of Reviews in the Chilean Performance and Evaluation Systems _____	43

## TABLES

1. Main Recommendations _____	11
2. Evolution of the Evaluation Framework in Chile, 1994 to Present _____	22
3. Chile: Overview of Spending Review Process _____	30
4. Examples of Targets for Spending Reviews _____	32
5. Key Elements of a PFM System _____	45

## ANNEXES

1. Action Plan _____	51
2. International Experience with Spending Reviews _____	59
3. Outline for Concept Note _____	62
4. Template Terms of Reference for Spending Reviews _____	64
5. Tools and Techniques to Undertake Spending Review Analysis _____	66
6. Template for the Spending Review Report _____	70

## ABBREVIATIONS AND ACRONYMS

AEE	Agency Expenditure Evaluation
CSR	Comprehensive Spending Review
DIPRES	Budget Directorate
FAD	Fiscal Affairs Department
GDP	Gross Domestic Product
GPU	UK Government Property Unit
ICT	Information and Communication Technology
KPI	Key Performance Indicator
MOF	Ministry of Finance
MSD	Ministry of Social Development
MTBF	Medium Term Budget Framework
MTFF	Medium Term Fiscal Framework
PFM	Public financial management
PMCD	Public Management and Control Division
PMG	Management Improvement Program
SR	Spending Review
SRU	Spending Review Unit
TOR	Terms of Reference

## PREFACE

In response to a request from the Chilean Ministry of Finance, a team from the IMF Fiscal Affairs Department (FAD) visited Santiago from January 29 to February 11, 2019, to assist the authorities in developing processes for conducting spending reviews. The IMF team was led by Ms. Teresa Curristine and comprised of Ms. Laura Doherty (FAD) and Messrs. Thomas Gloy and Jon Sell (both FAD experts).

The team met with the Minister of Finance, Mr. Felipe Larrain Bascunan; the Budget Director, Mr. Rodrigo Cerda Norambuena; and the Head of the Public Management and Control Division, Ms. Paula Darville. This mission also met with the Head of International Finance, Mr. Andres Perez; the Head of the Public Finance Division, Mr. Jose Pablo Gomez; the Head of the Budget Department, Mr. Antonio Garrido, the senior staff of Budget Directorate (DIPRES); and the Budget Director's Chief of Staff, Mr. Jose Ignacio Llodra.

The team benefitted from discussions with Mr. Ruben Catalan Hernandez, the Head of the Budget Advisory Unit of the Special Mixed Budget Commission of Congress, and his staff. The mission also held discussions with senior officials from the Secretariat to the Presidency and the Office of the Comptroller General. In addition, the team met with officials from the Ministries of Education, Health, Labor, Social Development, and Public Works.

Discussions were held with Mr. Klaus Schmidt-Hebbel (President) and Ms. Andrea Tokman (Vice-President) of the Fiscal Advisory Council; the mission also met with staff from the Inter-American Development Bank, Messrs. Fernando Montenegro and Sebastian Miller.

The IMF team conducted a seminar on international experiences with spending reviews that was attended by staff from the Ministry of Finance, DIPRES, and spending ministries.

The IMF team would like to thank the Chilean authorities for their warm hospitality and courtesy extended throughout our stay and for the constructive discussions throughout the mission. A special thanks to Mr. Gonzalo Gaete for facilitating the mission's work and for his support during the mission.

## EXECUTIVE SUMMARY

**The Chilean government has announced its commitment to achieving its fiscal target and containing expenditure growth.** The fiscal target aims to reduce the structural deficit by 0.2 percent of GDP for each year of the four-year Presidential term from 2018–21. To achieve this target, the government announced a four-year consolidation plan to gradually reduce expenditure each year by approximately US\$1.1 billion to realize a total of US\$4.4 billion in savings over the period.<sup>1</sup> The government has achieved its 2018 structural balance target. To help meet its goals in the coming years, and to find fiscal space for the President’s program, the government is adopting a new tool, spending reviews (SRs).

**Over two-thirds of OECD countries have adopted SRs.** SRs are an institutionalized process for analyzing existing expenditures to identify options to reduce or redirect expenditures and/or improve value for money. International experience shows that they can assist in meeting fiscal objectives and improving efficiency in several ways: (1) by identifying menus of high-quality saving measures that contribute to fiscal consolidation; (2) by creating fiscal space to meet new priorities or emerging pressures; and (3) by reprioritizing expenditure from lower to higher priority areas and by improving value for money by identifying areas of inefficient spending.

**The Chilean government has taken the first step to establishing an SR framework by creating a Spending Review Unit (SRU) in the Directorate of Budget (DIPRES).** The government plans to institutionalize SRs to help meet short-term budget requirements and improve the efficiency and effectiveness of spending over the medium term. In Chile, factors supporting the implementation of a SR framework include an established fiscal rule and framework, a solid and credible budget process, and 20 years of experience in performance monitoring and evaluations.

**At the request of the authorities, this mission provides recommendations and options for introducing and institutionalizing SRs (See Table 1 and Annex 1 for the Action Plan).** These include recommendations on: (1) establishing the SR framework and organizational structure; (2) implementing the process for conducting an SR; (3) setting the timeline for introducing and implementing SRs; and (4) institutionalizing SRs.

**This report proposes a SR framework with targeted reviews conducted on an annual rolling basis (initially, two to three a year), combined with a periodic comprehensive review at most once every four years.** Both types of reviews include targets to identify savings options. Targeted reviews focus on a limited predefined review topic or area and on value for money and efficiency. Comprehensive reviews do not have any predefined review topics; they undertake an

---

<sup>1</sup> IMF Article IV 2018. For detailed information on the plan, see DIPRES, *Actualización de Proyecciones del Gobierno Central para 2018*.



unconstrained search for the best saving options. They cover more areas of expenditure, but not all. These reviews would be integrated with the budget preparation process and would lock in savings for subsequent budgets.

**To support this SR framework, it is necessary to have an organizational structure with clearly defined roles and responsibilities.** SRs require high-level political commitment; the President would play a key role in approving the SR framework, the topic, and the terms of reference (TOR) for each review, including the saving targets and the final decision on saving measures. A Steering Committee would be established to provide leadership and oversight of the reviews; it would be chaired by the Minister of Finance and include the Budget Director and the Minister from the review ministry. DIPRES would coordinate the reviews.

**For every SR, there will be a joint working group, which will include high-level representatives from DIPRES' budget sector, the SRU, and the relevant spending ministries.** These groups, which would typically have a maximum of 15-20 members, will conduct the analysis and produce the savings and reform options. Comprehensive reviews will have more working groups, one for each ministry or topic. It is important for spending ministries to be involved, because they have in-depth knowledge of the area and will have to implement the agreed proposals and savings.

**The SRU is essential for ensuring effective coordination and oversight of the review process.** At present, the SRU has one staff member; this is insufficient to deliver the government's agenda. A team of six to eight people in a central SR unit is likely to be needed to drive the SR process (particularly in the comprehensive model) to ensure effective coordination, to develop a capability building and communication strategy, and to support line ministries in their SR roles. Initially, the unit could oversee two or three targeted reviews a year. With enhanced capacity and a fully staffed unit, this number could be increased.

**The report sets out a four-stage process for conducting an SR, which would start in September and have final saving decisions made in April or May of the following year.** These savings would be included in the ministries' budget proposal for the upcoming budget and their baselines in subsequent years. Implementing comprehensive reviews is more resource intensive than targeted reviews and requires more time to prepare. A comprehensive review would largely replace the exploratory budget formulation process in the year it is conducted.

**To institutionalize the SR framework, it is important to include the framework in legislation.** The SR framework for the initial phase would be established by a Presidential decree. However, legislation will be required to make it a permanent feature of the public financial management (PFM) system. One possible approach would be to amend the Public Finance Law to include the framework.

**The government wants to make swift progress and has an ambitious timeline for implementing SRs.** It has two internal goals: (1) to demonstrate initial progress this year in time for the 2020 budget; and (2) to consider moving to a comprehensive review within the next two years. These challenging and ambitious goals will require strong political will and the necessary resources to deliver them. A combination of a program of highly targeted reviews, beginning in 2019, to develop and embed the SR framework and methodology, in conjunction with preparation for a comprehensive SR to begin within two years, would allow these goals to be met.

**For the first goal, for the 2020 budget, only a limited or pilot SR is possible, given the compressed timeframe.** The topic should be selected soon, and it should focus on an area where substantial work has already taken place and savings can be gained. A possible candidate is property management, since DIPRES is already working on improving efficiency in this area. Savings could be locked into the 2020 budget, with implementation continuing throughout the coming year. This review would provide the opportunity to pilot the SR framework.

**The government will need to announce the topic for the first full targeted review to Congress in September 2019.** This review will be conducted in late 2019 and early 2020; the results will be ready in April 2020 in time for incorporation into the process for the 2021 budget. The report includes possible topics for this review.

**For the second goal, the authorities could consider conducting a comprehensive review in (A) 2021 for Budget 2022 or (B) in 2022 for Budget 2023, which is at the start of the new administration.** Option A would enable the government to find larger savings before the end of its term, and as is the tradition in Chile, leave fiscal space in its final budget for the first year of the incoming administration for its new priorities. This option, however, shortens the time to build capacity and develop the framework, which may result in weaker outcomes from the review. Option B would allow an extra year to build capacity and conduct another targeted review, as well as to prepare for the comprehensive SR, which could be tailored to the new administration's policies. Given the timeline, for its first comprehensive review, the government should consider covering a limited percentage of expenditures in key areas. After the first comprehensive review, the government should continue with targeted reviews, focusing on value for money and structural reforms and announcing the review topics to Congress each year in September.

**To meet its goals the government needs to move ahead quickly to do the following:**

- Develop a concept note setting out the SR framework, including the organizational structure, the objectives, and the process for selecting and conducting reviews; this concept note should be approved by the President and enacted by decree.
- Resource the SRU to deliver the government's goals, and task it with developing a program of spending reviews.

- Select and announce the pilot review for the 2020 budget; develop and approve the TOR; establish the organizational structure, including the steering committee and working group; conduct the pilot; and produce findings for inclusion in the 2020 budget.
- Announce the first full targeted SR to Congress in September 2019 and begin undertaking the review for completion in April 2020; thereafter, announce the review selected for the next year on an annual basis.

**To institutionalize SRs over the short and the medium terms, it is important to do the following:**

- Integrate the SR process into the annual budget process, so that policy options are ready for the exploratory budget phase in the spring. Develop in DIPRES the capacity to monitor SR savings, and ensure incorporation in the baseline budget proposals in subsequent budgets, especially in outer years.
- Develop a formal medium-term budget framework (MTBF) that provides ministries with indicative budget ceilings for the outer years.
- Integrate SRs with the performance and evaluation framework by aligning tools to provide more information to inform the budget and SRs. Use ex-post evaluations to follow up on the implementation of the saving options and reforms. Include SR savings options and reforms in the Management Improvement Program (PMG) for the relevant ministry.

**Table 1. Main Recommendations**

(ST: Short term 2019-2020, MT, Medium term 2021-2022). Further details are provided in Annex I: Action Plan.

<b>Recommendations</b>	<b>ST</b>	<b>MT</b>
<b>Establishing the spending review framework in Chile</b>		
Introduce SR framework with targeted reviews on an annual rolling basis (two to three a year initially), and a periodic comprehensive review every four years, at most.	X	X
Develop and agree to the concept note for the overall framework. This concept note should be approved by the President and enacted by decree.	X	
Strengthen SRU capacity and staffing.	X	
Minister of Finance and President should approve pilot review to be conducted in 2019.	X	
Set up a governance structure to oversee the targeted SR pilot review.	X	
Announce in September 2019 to Congress the first full targeted SR to be conducted in 2019 and 2020, with final savings decided in April 2020 for inclusion in the 2021 budget.	X	
Identify and announce SR(s) to be conducted in 2021.	X	
Discuss options and agree on the timing of the comprehensive SR with MOF and President as part of overall SR program for the coming three years. Option A is to deliver a comprehensive review for Budget 2022, and Option B is to deliver the comprehensive review for Budget 2023.	X	X
<b>Process for conducting a spending review</b>		
Conduct all full SRs following the four stages set out in this report.	X	
Develop the capacity within DIPRES sector divisions to monitor and implement multiyear saving measures from SRs.	X	X
Develop a system within SRU to track and report on realized savings and other measures agreed to in the SR process.	X	X
Line ministries should prepare necessary legislative changes to implement SR outcomes.	X	X
Publish SR reports.	X	X
<b>Institutionalizing spending reviews</b>		
Amend the Public Finance Law to include SR framework and MTBF.	X	
Integrate the SR process into the annual budget process so that policy options are ready for the exploratory budget phase in the spring.	X	X
Develop a formal MTBF with indicative ceilings for ministries for three outer years.	X	X
Review and adjust the evaluation framework to better inform the budget and SR processes.	X	
Use ex-post evaluations and the PMG to follow up on the implementation of the SR savings options and reforms.	X	X
Assign a saving target to each agency expenditure evaluation.	X	X
Amend the ex-ante evaluation framework to align methodologies and include the costing of social and non-social programs to be agreed on with DIPRES.	X	
Align the budget program structure with the program structure used for evaluations.		X
Publish reports on cost pressures and analysis of mandatory spending levels in legislation	X	X

# I. WHY INTRODUCE SPENDING REVIEWS IN CHILE?

**1. Spending reviews (SRs) are an institutionalized process for analyzing existing expenditures, to identify options to reduce or redirect expenditures and/or improve value for money.** The objectives of SRs vary by country; they include helping with fiscal consolidation, creating fiscal space to fund new priorities, and increasing value for money in the public sector.

**2. Chile's public debt remains relatively low by international standards; however, gross debt rose by nearly 20 percentage points of GDP from 2007–17 to 23.6 percent in 2017.** For several years, public expenditure has grown considerably more than revenue relative to GDP, and the structural deficit peaked at 2.0 percent of GDP in 2017. As a consequence of the increasing public debt, Standard & Poor's, Moody's, and Fitch have all downgraded Chile's sovereign credit rating since 2017.<sup>2</sup>

**3. The Fiscal Responsibility Law (FRL) requires the President to set a target for the structural balance at the start of the administration.** The current target was set in 2018 and entails an improvement of the structural balance by 0.2 percentage points of GDP per year over the four years. Accordingly, the 2019 target is a structural deficit of minus 1.6 percentage points of GDP. The aim is to have the structural balance at minus 1.0 percent of GDP by the end of the Presidential term.

**4. In 2018, the new government announced a consolidation program to help stabilize debt, reduce the deficit, and make room for new priorities.** The fiscal target is underpinned by a consolidation program that aims for savings of US\$4.4 billion from 2018–21. The government cut expenditure by approximately US\$1.063 billion in 2018 and aims to spread the remaining consolidation over the preceding years (around US\$1.1 billion per a year, or about 1.5 percent of the 2018 budget) to achieve the consolidation program's overall goal.

**5. In the 2018 budget, the consolidation was largely implemented with across-the-board cuts to operational expenses and one-off measures.**<sup>3</sup> The savings were reached mainly through cuts to budgets for goods and services, personnel expenses, acquisition of nonfinancial assets<sup>4</sup> (US\$446 million), reductions to a central Presidential reserve for new initiatives (US\$363 million), and one-off measures (US\$238 million). Other savings were obtained from lower than expected inflation (US\$16 million). Savings targeted at specific

---

<sup>2</sup> IMF Article IV 2018.

<sup>3</sup> For details on the plan see pages 37-43 of *Actualización de Proyecciones del Gobierno Central para 2018* [http://www.dipres.gob.cl/598/articles-175239\\_doc\\_pdf.pdf](http://www.dipres.gob.cl/598/articles-175239_doc_pdf.pdf)

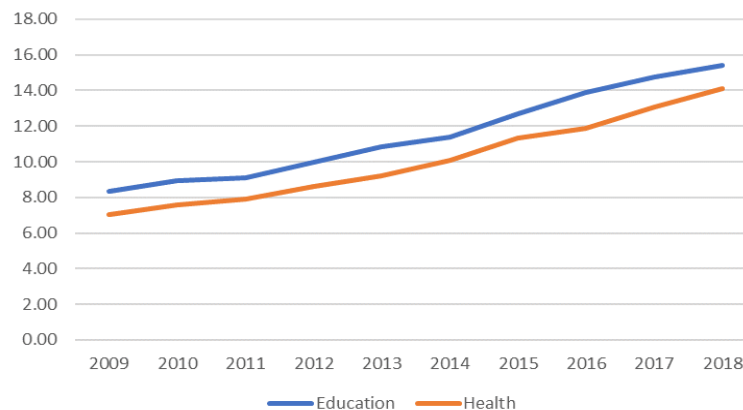
<sup>4</sup> This expenditure reduction was achieved with cuts to Budget Subtitles 21 Personal Expenditure (for example, travel allowances), 22 consumer goods and services (e.g. office supplies, advertising and representation expenses), and 29 Acquisition of Non-Financial Assets (e.g., purchases of vehicles, furniture, and equipment).

programs, even those evaluated as ineffective, proved difficult due to the short timeline for implementing consolidation measures and the political difficulty in eliminating these programs.

**6. Going forward Chile will continue to face budgetary challenges.** These include the following:

- Continuing the implementation of the fiscal consolidation plan with similar levels of savings in every budget for the rest of the Presidential term.
- Creating additional fiscal space for reallocations to fund the US\$14 billion Presidential platform within the fiscal rule.
- Managing key cost pressures, such as from health and education, that have increased significantly over the past few years: The total expenditure of all ministries increased from US\$45 billion in 2009 to US\$69 billion in 2018, primarily due to increases in spending on health and education that almost doubled over the same period (Figure 1).
- Meeting increasing citizens' expectations in an economy where potential GDP growth could be lower than in the commodity boom decade: This will require improved value for money and greater efficiency and effectiveness in government spending and service delivery.

**Figure 1. Expenditure in the Ministry of Education and the Ministry of Health**  
(real terms 2018, US\$ billion)



Source: DIPRES

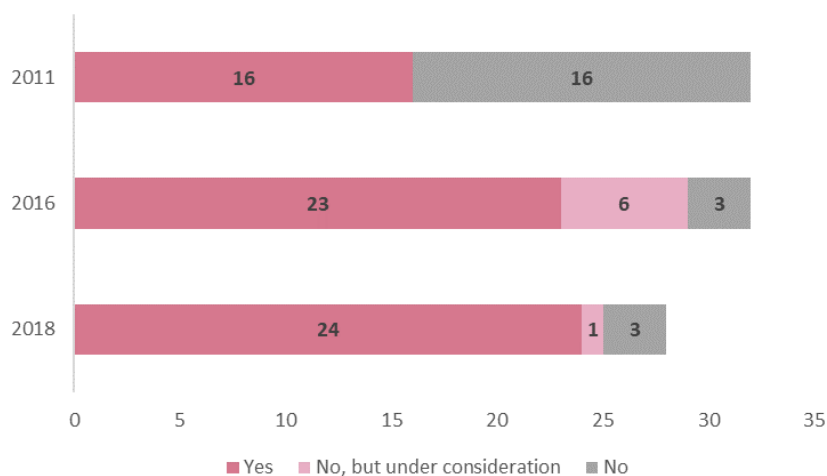
**7. To help address these challenges, the government of Chile has decided to develop a process for conducting SRs.** The Directorate for Budget (DIPRES) has taken the initial step of establishing a Spending Review Unit (SRU) and requested support from the IMF to discuss international experiences with SRs and to propose recommendations and options for establishing a spending review process in Chile.

## II. INTERNATIONAL EXPERIENCE WITH SPENDING REVIEWS

### A. Introduction

8. **In OECD countries, SRs have increasingly been adopted as a core part of the public financial management framework.** A recent OECD survey reported that over two-thirds of OECD countries conducts SRs, either annually or periodically; this finding represents an increasing trend in their use (Figure 2).

Figure 2. Adoption of Spending Reviews, 2011 to 2018



Source: OECD Performance Budgeting Survey 2018.

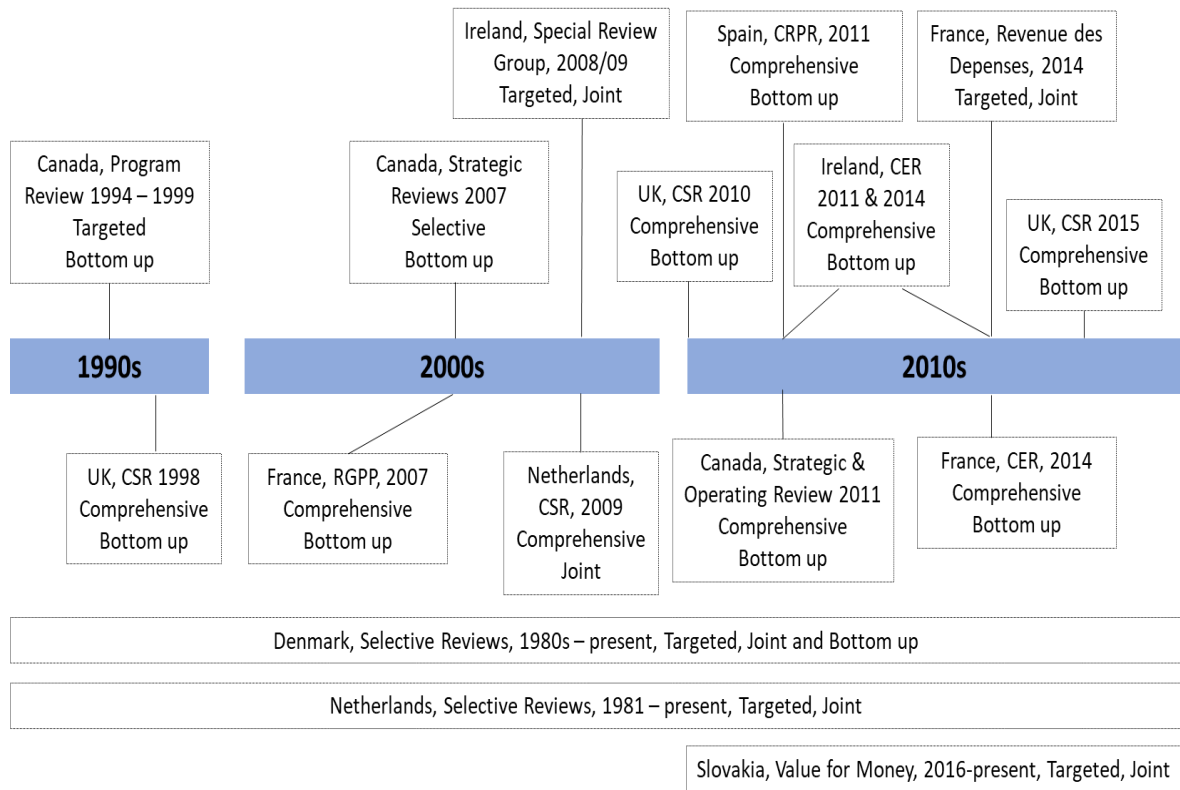
Note: 2018 figure excludes six countries from whom data were not received.

9. **SRs have proven to be a highly useful and flexible tool for identifying savings and improving the efficiency and effectiveness of government expenditure.** In some cases, such as the UK's 2010 Comprehensive Spending Review, SRs have been used to achieve significant fiscal consolidation. In other cases, for example, in Denmark's ongoing program of targeted reviews, they focus on identifying the least efficient and effective activities and finding savings to fund new priorities. Further details on these and other examples are provided at the end of this section. Some OECD governments that monitored the outcomes of SRs reported success in achieving 90 percent of their fiscal objectives—the main purpose of the reviews. These include Canada, Greece, Ireland, Italy, Latvia, Luxembourg, Mexico, Sweden, Switzerland, and the United

Kingdom.<sup>5</sup> The range of expenditure types and topics covered by SRs has varied widely, as have the ways in which SRs have been managed within governments (Figure 3).

**10. The key lesson from two decades of OECD experience is that SRs are an adaptable tool that should form a core part of the fiscal management toolbox.** Regular use of the spending review method will ensure that budgetary decisions will increase the overall efficiency and effectiveness of government spending over time. SRs have gained a reputation for contributing to efforts to increase the effectiveness of governments, as well as for maximizing outcomes for citizens, within the limits of available public resources.

**Figure 3. Evolution of Spending Reviews in OECD Countries**



Source: IMF team.

<sup>5</sup> OECD. 2017. *Government at a Glance*. Paris: OECD Publishing. It should be noted that several countries were unable to report on the results of SRs because they failed to track implementation. For more details on the outcomes of consolidation efforts, see the OECD. 2015. *The State of Public Finances*. Paris: OECD Publishing.



## B. Objectives of Spending Reviews

**11. SRs involve in-depth analysis of existing public expenditure to identify policy options for either reducing or redirecting expenditure from low priority, inefficient, or ineffective programs.** SRs offer a systematic approach to ensure that (1) spending remains aligned with the government's policy priorities, (2) is effective in achieving its intended objectives, and (3) is being deployed efficiently. Box 1 discusses the UK experience with SRs.

**12. Spending reviews can be designed to meet different objectives.** These may include one or a combination of the following:

- *Value for Money*: identifying areas of inefficient spending, where similar outputs and outcomes can be achieved with reduced inputs.
- *Creating fiscal space*: making room to accommodate new policy priorities or emerging fiscal pressures.
- *Reprioritization*: Shifting expenditures from lower-priority to higher-priority areas.
- *Fiscal Consolidation*: Reducing the growth or the level of public expenditure.

### Box 1. The UK's Experience with Comprehensive Spending Reviews

The UK conducts periodic comprehensive spending reviews (SRs) to review the spending of all government departments and devolved administrations. The SR process is used to determine fixed departmental expenditure limits for each government department over a multiyear period through SR settlements. In the most recent SR undertaken in 2015, a zero-based review of capital spending plans was conducted; departments were asked to examine their assets and how these can be managed more effectively, in addition to evaluating their spending.

At the start of each SR process, the government releases a framework document setting out the objectives and priorities of the SR. Recent SRs have focused on identifying savings to support fiscal consolidation objectives. To achieve this, the government defines specific saving objectives at the outset of the spending review. For example, in the 2015 SR, departments were asked to model two scenarios to deliver a 25 and 40 percent saving in real terms over four years, respectively. In developing their proposals, departments are requested to have regard to the effectiveness and feasibility of the proposal, spending implications and value for money, wider macroeconomic implications, legislative and operational requirements, sectoral and distributional impacts, and administrative and compliance costs.

A committee of senior Cabinet Ministers—the Public Expenditure Committee—makes SR decisions and advises the Cabinet on high-level decisions to be taken in the SR.

The SR process is conducted over a five-month period and is led by the UK Treasury, the government's Ministry of Finance, that is responsible for issuing guidance to departments, working with departments on spending options, and coordinating the overall process. Independent experts are invited to submit analysis to Treasury on the impact and cost-effectiveness of major areas of public spending; the public is also invited to make written representations to help inform the SR. Once an SR is complete, the main government departments publish a plan, called the Single Departmental Plan, specifying what they will achieve over the course of the Parliament. The SR settlements inform these plans.

Source: IMF team.

## C. Types of Spending Reviews

**13. There is no single approach for conducting SRs, and countries have adopted different models.** Some countries, such as Ireland or the UK, have adopted comprehensive approaches that review most government expenditure on a periodic basis. Other countries, such as Denmark or the Slovak Republic, have adopted targeted or rolling SR approaches that select specific sectors or programs for review as part of an annual SR process. Still other countries, including Canada and the Netherlands, have combined types of reviews to achieve different objectives. For example, the Netherlands, which has a long history of conducting SRs, has combined an annual rolling targeted review process with an occasional comprehensive review.

- A *comprehensive* SR is not limited to any predefined list of review topics. In a comprehensive SR, review teams are asked to undertake an unconstrained search for the best savings options. A comprehensive SR reviews does not review all programs and business processes; it covers between 20 to 100 percent of expenditure. For example, the Netherlands 2009 comprehensive SR reviewed 20 policy areas. Comprehensive SRs can identify ways to achieve the fiscal consolidation needs in one process; however, doing this requires significant resources and commitment across the whole government.
- A *targeted SR* (also known as a *selective review*) is limited to a number of predefined review topics. For example, the government might decide that in the coming year, the SR process will look for ways to improve efficiency, savings, and/or reallocations from review topics such as (1) social assistance benefits, (2) information and communications technology acquisition and management, and (3) waste management services. Denmark and the Slovak Republic are examples of countries that use the targeted SR approach.

**14. Governments that want to use SRs as a tool to implement major fiscal consolidation are likely to choose the comprehensive model.** Governments that use SRs more to improve value for money and increase fiscal space tend to use a rolling program of targeted reviews (Box 2). Some governments have chosen to conduct a number of reviews each year to cover all the major areas of spending over a period of four to five years.

### Box 2. Targeted Spending Reviews: Types of Review Topics

There are three key types of review topics:

- *Program reviews*: These examine specific programs and may deliver either strategic savings (by eliminating or cutting back the programs) and/or efficiency savings (by lowering the cost of delivering services under the programs).
- *Process reviews*: These scrutinize specific business processes, for example, procurement processes, IT systems and practices, or human resources management practices. Process reviews aim to achieve efficiency rather than strategic savings.
- *Agency reviews*: These review a whole government organization (ministry or other agency) and may in principle cover all of the agency's programs and processes. They generally aim to achieve efficiency in savings.

Program or process reviews may be agency-specific or horizontal reviews. A horizontal program review examines a group of related programs delivered by two or more agencies, for example, training programs; a horizontal process review looks at a particular domain of business process across several (or all) government agencies, for example, a review of government-wide procurement practices.

Source: OECD 2014. Spending Reviews by Marc Robinson.

## D. Key Lessons Learned

**15. Lessons from effective SRs suggest that the more successful reviews are those with the following elements.** There is a strong political commitment throughout the process; clear objectives and targets are established at the outset; a range of different participants is engaged; the Ministry of Finance plays a lead role in driving the process; and reviews are closely integrated with the budget. Box 3 summarizes some key lessons learned in designing and implementing SRs. The experiences with SRs in other countries are included in Annex 2 (Denmark, the Netherlands, and the Slovak Republic).

**16. In addition, the experience of OECD countries has shown that other factors, including supporting public financial management structures and capacities, are important for the successful implementation of SRs.** These factors are discussed in Chapter III and Chapter V, including their current status in Chile and those that should be developed in conjunction with the implementation of a SR framework, including an MTBF.

### Box 3. Spending Reviews: Lessons from OECD Countries

- 1. Set clear savings targets at the start of the exercise:** Savings targets can ensure that the SR is aligned with the medium-term fiscal plan and help create accountability within ministries for achieving the required savings.
- 2. Be explicit about the review criteria, and set out a core set of review questions:** Consistent criteria facilitate comparable identification and assessment of savings options. Compelling review questions help to easily communicate the SR approach within the government and to Congress and the public.
- 3. Focus on the priority areas that will provide the best opportunities for savings:** Targeting priority areas where there is an appetite for reform will help deliver savings. It is important to be clear about the type of review being undertaken.
- 4. The explicit support of the President/Prime Minister and Cabinet is essential.** Their political sponsorship is need for the SR and to ensure that savings proposals have been tested against political priorities. A SR needs a strong Ministry of Finance (MOF) to challenge ministries and hold them to account for implementation.
- 5. Combine internal knowledge with external challenge:** The capacity of line ministries to gather and analyze evidence is crucial. However, external expertise is also important in challenging the status quo and bringing new thinking and evidence to the process.
- 6. Consider strategic, as well as efficiency, measures, or the scope of savings will be limited:** Considering *strategic* issues (for example, which programs should continue or how delivery can be reformed) and *efficiency* issues will allow more substantial savings and will support improved government effectiveness.
- 7. Integrate SRs into the budget process:** Ensure that SR results and forecasted savings are formally embedded within the budget. Once the SR framework is established, reviews can be built into the budget process as a regular exercise to support ongoing improvements in the efficiency and effectiveness of government. The integration of the two processes should ensure that SRs are discussed at the same time as the budget.
- 8. Be clear about the scope of an SR, the type of savings required, and the timing of savings:** The MOF should determine at the start of the SR which budgets will be included (for example, operational expenditure on goods and services, wages, mandatory expenditure, or capital investment). Doing this will influence the scale of savings possible and will direct the work of the SR team. It is important that the MOF to specify when savings need to be realized and whether there is space for “spend to save” options in the budget.
- 9. Focus on implementation:** Without a good plan and sustained focus on implementation, the SR will fail to deliver its objectives. SR groups should produce an implementation plan that could be included when the review is agreed by ministers; the plan would cover the key legislative and other steps needed to realize the savings proposals. Post-agreement, the budget sector divisions have a key role in holding the ministries accountable for implementation, and the process for monitoring savings needs to be stipulated.

Source: IMF Team

### III. ESTABLISHING THE SPENDING REVIEW FRAMEWORK IN CHILE

#### A. Current Situation in Chile

**17. The Chilean MOF is introducing SRs to supplement its existing expenditure toolkit. SRs will support the achievement of fiscal targets by providing a systematic way of reviewing expenditure and identifying savings.** Chile has a number of existing tools and capabilities that will aid the introduction of SRs. These include: a well-established and credible annual budget process; a widely understood process for year-to-year budgetary control, anchored by an established fiscal target that sets the aggregate expenditure ceiling; a longstanding and recently strengthened evaluation toolkit and good evaluation capability; and a modest but disciplined approach to realizing savings in cross-cutting areas of operational expenditure in the current budget year.

#### Current Budget Process

**18. Chile has a well-established budgeting process that combines top-down forecasts of fiscal space, with bottom-up projections of budget needs for the coming year.** The process is effective in achieving discipline in year-to-year budgetary planning, as demonstrated by the government's delivery of its fiscal target in 2018. There is clarity across the government on the budget's objectives and on the annual process, roles, responsibilities, and information required. Capacity has been built over time within DIPRES and within ministries to deliver this annual process effectively within its current scope.

**19. The annual budget cycle in Chile, however, predominantly focuses on prioritizing additional resources among new initiatives for the coming year.** It is an incremental budgeting process in which baseline expenditure is not routinely assessed. The ambition for fiscal consolidation, existing cost pressures within the baseline, and the desire for an active program of new Presidential initiatives mean that a shift is required to a regularized, evidence-based scrutiny of the baseline. This requirement is recognized by the MOF and has resulted in the decision by DIPRES to adopt an SR approach and establish a SR unit in DIPRES.

**20. Although there is a medium-term fiscal framework, there is no formal medium-term budget framework.** Accordingly, it is challenging to make an assessment and understand in advance the full cost of initiatives over time or to discuss medium term trade-offs among areas of expenditure. DIPRES and some line ministries prepare their own medium-term forecasts, but they do not share these with each other or used them as the basis for decisions about allocations to new initiatives. Therefore, commitments to new multiyear expenditures are not predicated on ministries agreeing on how these will be funded through trade-offs with other areas of expenditure or savings elsewhere in their baselines.

**21. The incremental nature of expenditure planning also makes it difficult for DIPRES to assess and plan for long-term pressures,** for example, pressures resulting from increases in input prices (such as pharmaceuticals), or above inflation trends in public sector wage costs. Even where these medium- and long-term cost drivers are being assessed, for example, in the Ministry of Health, the incremental nature of the budget process prevents this analysis from being used to drive long-term mitigation strategies, such as cost controls, service reform, or expenditure reallocations.

**22. The fiscal target and increasing debt have driven an increasing focus on realizing savings, but savings from structural reforms have proven harder to deliver.** Early progress has been made on seeking to increase the efficiency of operational costs, and all ministries were subject to savings in the 2019 budget. Promising work is underway to standardize procurement costs and to optimize the management of the government's use of property and information and communications technology. Some reprogramming of projects has taken place to help meet the consolidation target for 2019; however, savings from program spending have generally proven hard to realize. Political commitment to make the trade-offs necessary to realize the fiscal consolidation plan over the next three years will be essential; such a commitment may include restructuring, retargeting, or eliminating existing programs. In general, ministries do not pursue such options, and they are likely to need clear political direction to feel able to do so.

### **Current Evaluation System**

**23. Chile has developed a number of tools, including ex-ante and ex-post evaluations and performance indicators, to evaluate the performance of programs and agencies.** These tools provide a good platform for some of the analysis that will be required to deliver SRs. The evaluation framework has continued to evolve, most recently adding new capabilities centered around institutional performance and program impact (Table 2). Around 1,200 programs have undergone ex-ante evaluation in the past 10 years, and around 580 have undergone ex-post evaluation in the past 20 years.

**24. However, the current evaluation tools are not strongly integrated with the budget process, they do not inform medium-term planning, and they too often consider performance without assessing cost-effectiveness.** The adoption of SRs would help to fill these gaps. The use of different program structures between the evaluation framework and the budget also limits the ability for current evaluation work to be used within the budget process.

**25. Where evaluations have been negative, it has proven difficult to eliminate programs, and the focus is instead on modification.** This approach risks an inefficient program mix and does not encourage ministries to robustly challenge and, if necessary, shut down activities whose objectives may be better met by other means. Strengthening the alignment of expenditure to strategic goals and increasing efficiency in the program mix will be an important contribution of SRs to the overall policy evaluation system in Chile.

**Table 2. Evolution of the Evaluation Framework in Chile, 1994 to Present**

Evolution of evaluation system		Current evaluation toolkit
Performance indicators (1994)	Effectiveness, economy, efficiency and quality. Goals in budget process.	<b>EX ANTE</b> 1. Social programs (led by MSD) 2. Public investment (led by MSD) 3. Non social programs (led by DIPRES)  <b>EX POST</b> (all led by DIPRES) 1. Evaluation of Public Programs 2. Impact evaluations 3. Evaluation of New Programs 4. Agency Evaluation 5. Focused Evaluation
Program evaluation (Ex post) (1997)	Programs and Institutions selected annually by Executive and Congress. Evaluation by independent panels, consultants and universities. Conclusions reported to Congress.	
Ex ante Evaluation (2008)	New and reformulated programs receive a rating based on consistency, coherence and relevance.	
Management Improvement Programs (MIP/ PMG) (1998)	Annual staff bonus paid on basis of agency progress against goals in key performance indicators and indicators in 5 key management areas. Current maximum bonus of 7%. 98% of agencies received the maximum in 2015.	
Monitoring Programs (2012)	Information on the implementation of programs and performance information used for the budget formulation.	

Source: IMF team, based on information from DIPRES.

**26. There is a clear set of Presidential priorities that is reflected within ministries.** These priorities are monitored by the Secretariat of the Presidency; some of these priorities are reflected in the ministries' performance indicators, and they are monitored by DIPRES, which has a comprehensive performance monitoring framework. However, there is no systematic way of assessing the contribution of various new and existing policy initiatives to the achievement of strategic goals. This lack makes it difficult to make judgments about the effectiveness of different but related activities and to assess the relative cost-effectiveness of spending in achieving the President's overall priorities.

**27. Overall, SRs are an appropriate tool to address the gaps identified in the Chilean budgetary and evaluation system, and the existing strengths of these systems will support the effective introduction of a SR framework.** In this context, however, political support, effective planning, and appropriate allocation of capacity in DIPRES will be required to ensure that SRs deliver the required benefits. The next section of this report gives an overview of the SR approach that is recommended.

## B. Overview of Proposed Approach and Framework for Chile

### Objectives of Spending Reviews in Chile

**28. The introduction of SRs will support the achievement of the government's fiscal targets and reallocations of funding to Presidential priorities by providing a systematic method for identifying and realizing savings.** The government has made a clear commitment to achieve the fiscal target, which has been translated into a savings target of US\$4.4 billion over the term of the current administration. Consequently, DIPRES is focused on the potential of SRs to identify savings and to help meet this savings target.

**29. SRs also offer the government an opportunity to increase efficiency and effectiveness, to improve strategic alignment of activities, and to seek structural reforms.** This process can help address the long-term pressures related to changing demand, increasing cost pressures, and evolving political objectives. To gain the full value from SRs, we recommend that these structural objectives be explicitly part of the SR framework in Chile. They are key to ensuring a sustainable approach to savings realization and long-term planning of public services.

### Recommended Structure of Reviews

**30. The SR model proposed for Chile is one of targeted annual reviews on a rolling basis (two or three a year), combined with a periodic comprehensive review at most once every four years.** The selected reviews would focus on improving efficiency, effectiveness, and value for money; the comprehensive reviews would focus more on savings. It is important to note that in OECD countries, comprehensive reviews cover anywhere from 20 to 100 percent of government spending.<sup>6</sup> Given the time and resource constraints, for its first comprehensive review, the government should consider covering a limited percentage of expenditures and focusing on key areas that would be selected considering the factors discussed in Chapter IV for selecting targeted reviews.

### Implementation Timeline and Options

**31. The authorities are eager to make swift progress in implementing SRs and have set two internal goals: (1) to demonstrate initial progress in time for budget year 2020; and (2) to move towards a comprehensive review within the next two years.** We conclude that these goals are ambitious and challenging but deliverable if there is the political will and the needed resources are provided to conduct these reviews. A combination of a program of targeted reviews beginning this year to develop and embed the SR framework and methodology, alongside preparation for a comprehensive SR to begin within two years, would allow these goals

---

<sup>6</sup> OECD, 2017, *Government at a Glance 2017*.



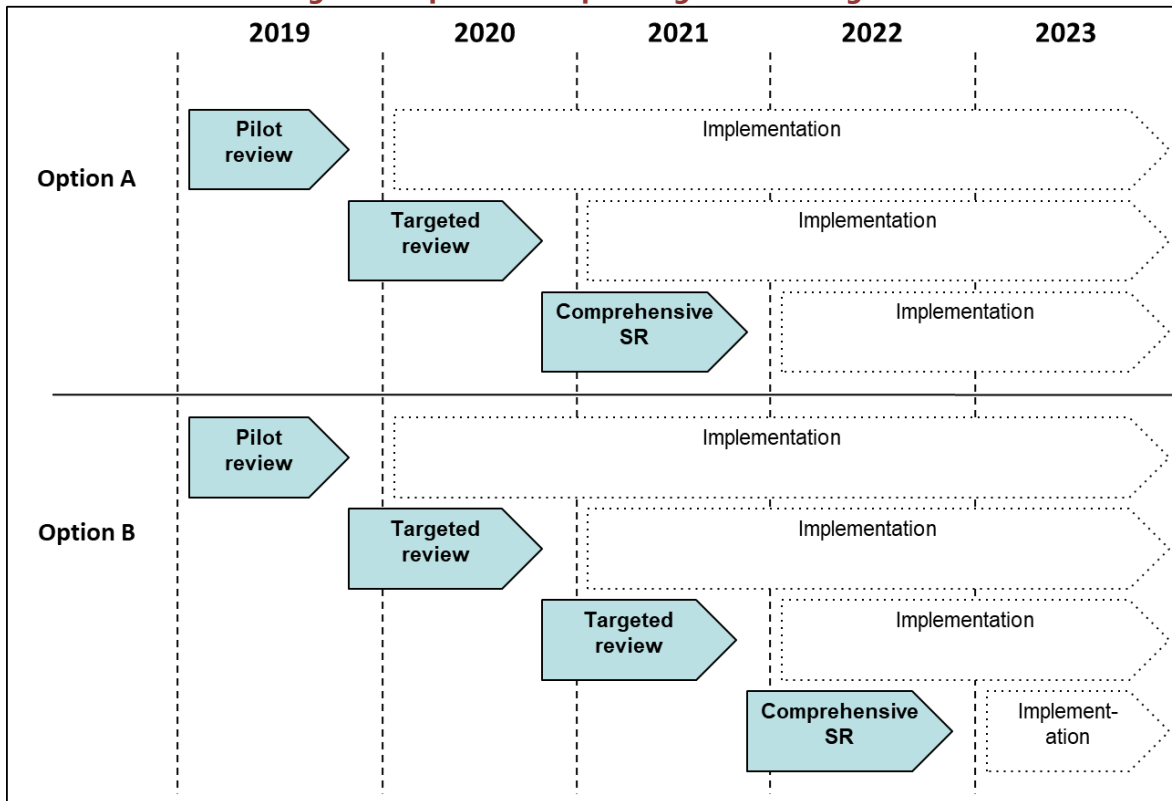
to be achieved. The authorities wish to discuss options for the timing of a comprehensive review. The following paragraphs discuss two options, A and B.

**32. Option A is a highly targeted program of targeted reviews beginning in 2019, with a comprehensive review for the 2022 budget.** This option would allow Chile to gain momentum, establish the SR framework, and build capability in advance of a comprehensive review. Holding a comprehensive review in time for implementation in the 2022 budget (the authorities' preference) would set a clear and pressing need for the whole of government to begin to plan for the initial stages of a SR process toward the end of this year. This timeline is deliverable, with sufficient support from the President and adequate investment in the resourcing and capability of DIPRES and spending ministries. However, it leaves relatively little time for preparation and will rely heavily on ministries' existing capability and independent preparation work. This review will be implemented in the last year of the existing administration and in an election year. Chile, however, does have the tradition that the outgoing administration's final budget provides some fiscal space for the incoming administration's new priorities.

**33. Option B is to implement the comprehensive review in time for the 2023 budget.** That is the first year of the new administration and would allow an extra year to implement at least one further substantive targeted review and use that to embed the SR framework ahead of a comprehensive exercise. This decision can be made by the government during 2019 as the scope and requirements of the SR approach are developed by DIPRES.

**34. There are trade-offs in deciding which option to implement.** Figure 4 sets out the two broad options for combining a targeted and comprehensive approach to SRs. In addition to the tradeoffs described, two important observations need to be made about these options. First, option B provides a longer lead time so that background work on the comprehensive SR framework could begin soon; it would allow space for three targeted reviews in 2019, 2020, and 2021, respectively. The outputs of these targeted reviews should feed into the comprehensive SR, so that identical reviews are not repeated in quick succession—once on their own, and then once again as part of the comprehensive process. A light-touch update of analysis and options could be beneficial, if scoped properly. Second, although option A accelerates the timing (and therefore benefits) of the comprehensive approach, but the shorter preparation time in which to build capacity and develop the framework could result in weaker review outcomes.

**Figure 4. Options for Spending Review Programs**



Source: IMF team.

**35. For the first rounds of targeted reviews, it is important that topics are identified that are likely to yield savings and that have a likelihood of success.** This suggests either cross-cutting reviews of areas where costs are comparable and can be benchmarked, or reviews targeted to specific program areas with clear boundaries and delivery systems that are sufficiently narrow to be comprehensively assessed within the time and resources of the review. Other important considerations in selecting early reviews are the availability of data and the extent of the political support for implementing savings.

**36. There are promising early candidate areas for SRs, where work is underway that could provide a foundation for an SR or a pilot to test elements of the SR approach:**

- **Operational/functional expenditures:** The Ministry of Finance has begun work to review expenditure on operational areas, such as property, ICT, and vehicles. Property services may offer an opportunity to pilot the SR approach, implementing elements of the SR methodology, and building on the data gathering work underway—and accelerating it—to identify an ambitious but realistic savings target that can be incorporated into the 2020 budget. This could be calculated from the forward plan of lease renewals that is being gathered in DIPRES and the market assessment of likely realizable savings that is also underway.

- **Hospitals:** The Ministry of Health has a program of work underway to identify the long-term cost drivers of hospital care; it is considering new ways of structuring its service provision to better target beneficiary groups based on needs. It is also considering how it might standardize costs across hospitals, particularly for the provision of nonspecialist care. The government's new Productivity Commission is also reviewing health care, which is likely to provide additional data and analysis that might support an SR in this area. For these reasons, and the scale of the budget that would be involved, hospitals would be a good candidate for a targeted review, perhaps to be announced to Congress in September 2019 and conducted in time to be integrated into the 2021 budget, which will be agreed by Congress in November 2020. This review would need to be tightly scoped to be deliverable, for example, focusing on medium-term cost drivers, rather than attempting to analyze what long-term demographic trends and performance in the wider health care environment mean for the structure of national hospital provision.

**37. DIPRES has also flagged some other areas which they consider candidates for an early SR and a priority in the coming months should be to analyze these options and present a firm shortlist to the Minister of Finance for consideration.** These areas include nursery care, where the provider market is complex, to assess efficiency; school lunches, to assess targeting and efficiency; and training for public sector staff, to explore opportunities to standardize costs and leverage government purchasing power to lower prices. There may also be an opportunity to review the provision of administrative support to ministries (such as human resources, finance, ICT, and estates) where each service area is currently replicated in ministries.

### Outputs of Reviews

**38. The output of SRs should be specific savings that are integrated into the budget.** Therefore, each SR should begin with a clear target for savings to be achieved, for example, a 5 or 10 percent reduction in current expenditure. In many cases, these savings will be aligned with reforms that improve overall efficiency and effectiveness; it is also important that the elimination of underperforming activities be part of the SR's options.

**39. The reviews could also produce an internal report on saving options in selected areas.** The SRU could produce a report in collaboration with the relevant ministry and working groups, outlining the conclusions and supporting analysis. While all the options may not be ultimately used, this approach allows frank consideration of all options during the SR process, including those that may be politically challenging, without necessarily making them public (unless they are to be implemented, in which case they must be included in the published report).

**40. There should also be a public report, because sharing the analysis and conclusions of each SR with Congress and the public is important in building the understanding of and support for the SR approach.** This policy would also be in line with the government's broader commitment to transparency. The precise nature of what is published can be determined; it may

range from publishing all options and analysis, as in the Danish model, to publishing only the conclusions, as in the UK model.

### C. Organizing Structure: Roles and Responsibilities

**41. To support the proposed SRs, it is necessary to have an established organizational structure and clearly defined roles and responsibilities.** In Chile, the support of the President is a critical success factor in the implementation of SRs. The proposal for the SR framework will have to be agreed to and approved by the President; the President’s explicit support will be needed to direct ministries to work with DIPRES. This support could come in the form of a decree or other appropriate formal mechanism. The governance structure for SRs will need to ultimately report to the President and seek Presidential direction on scope and timing; selection of reviews; and decisions on measures to be implemented and the trade-offs entailed. It will be particularly important that there is engagement with the President from the beginning (to agree to the terms of reference of individual reviews and savings objectives) and at end of each SR process (to agree the changes that will be implemented). Figure 5 sets out the proposed structure.



Source: IMF team.

**42. The Minister of Finance and the Budget Director will be essential in driving the process and working with ministries to deliver SRs and agree to the recommendations that will be put forward to the President.** The Budget Director is likely to need to provide personal, ongoing leadership and strategic guidance to the SR process, particularly in managing the engagement with ministries at the senior and political levels.

**43. We recommend that a Steering Committee is set up to support the leadership and coordination role of DIPRES in each review.** This committee should be chaired by the Minister of Finance and attended by the Budget Director; for targeted reviews, the ministers responsible

for areas of expenditure being reviewed should attend. A comprehensive review is likely to require a subcommittee of the Cabinet, including all major spending ministries under review. The Steering Group should provide overall direction for the reviews, including the conclusions and reporting of results to the President. The Steering Group should be supported by the SRU and should meet regularly, every one or two months, depending on the time in the budget cycle.

**44. The key to success is the role of the SRU in ensuring the effective coordination and oversight of reviews.** At present, the SRU has one staff member. This staffing level is insufficient to realize the government's goals. A team of six to eight people in a central SRU is likely to be needed to drive the SR process and ensure effective coordination. Initially, the unit will oversee two to three targeted reviews a year; with increased experience, this number could increase over time. The SRU would also oversee comprehensive reviews. The SRU's role would include building capacity, developing communication strategies, and transferring lessons between reviews. The SRU would need to help ministries to build capacity to perform their roles in the SR process; this help is likely to require the development of guidance, training, and seminars. The SRU might also need to communicate activities with Congress, the Fiscal Council, and the public. The SRU should recruit additional staff who can offer the requisite blend of analytical and communication skills and the ability to work collaboratively with colleagues within and outside DIPRES. The role of the sector divisions in DIPRES is also important; they will need to bring their experience and knowledge of the review areas to the process and must be accountable (above SRU) for the successful delivery of the reviews, as well as for working with ministries to implement their conclusions.

**45. Working groups are an important component of the SR approach.** They allow for the detailed considering of the questions to be tested; the gathering and analyzing of evidence; and the process of working through the options, benefits, and risks that should be put to ministers. DIPRES should set up working groups for each SR, bringing together DIPRES lead officials (the sector leads and SRU) and the relevant leads from the spending ministry concerned with the review.

**46. External input is valuable in supporting SR analysis and testing options.** Some countries, (for example, the Netherlands), have external representatives on working groups. Other countries (for example, the UK) have established a separate advisory group to engage external experts. Initially, Chile might consider the advisory group option, particularly while DIPRES is encouraging ministries to bring radical options to working group discussions, which they may be reluctant to do if external members are present.

**47. Working groups also perform an important function in ensuring that each SR is a collaborative effort.** The Ministry of Finance will rely on the ministry concerned for detailed evidence, sector knowledge, and access to relevant stakeholders. This joint working relationship is a critical factor in successfully producing an evidence-based and implementable set of recommendations from the SR process.

**48. SRs imply a change in role for the budget sector teams, who will need to shift from incremental, year-to-year expenditure control to a more strategic role, engaging ministries in discussions about medium- to long-term priorities, pressures, and reforms.** Accordingly, the introduction of SRs is likely to significantly enhance the role of sector teams; their contribution will be critical in delivering reviews. During the SRs, relevant sector teams will need to reprioritize their work so that the SR becomes a core component of their “day jobs.” During a comprehensive review, this will be true for all of DIPRES; it will need to consider how it can achieve this, for example, by stopping or scaling back on some nonessential routine activities.

## **D. Recommendations**

### **Short term:**

- Introduce a SR framework with targeted reviews on an annual rolling basis (two to three a year initially), and a periodic comprehensive review, at most every four years.
- Develop and agree to the concept note for the overall SR framework (a suggested outline is included in Annex 3). The concept note should set out the SR framework, including the organizational structure, the objectives, and the process for selecting and conducting reviews. This should be approved by the President and enacted by decree.
- Strengthen SRU capacity so that it is resourced to deliver the government’s goals; task it with developing a program of SRs.
- Agree with the Ministry of Finance and Budget Director that the pilot review will be carried out in 2019 for the 2020 budget. Obtain Presidential approval for the targeted review pilot. Set up a governance structure to oversee the pilot.
- Identify targeted SRs to be carried out in 2019 for 2020 budget.
- Identify targeted SRs to be carried out in 2020 for 2021 budget.
- Discuss options on the timing of the Comprehensive Spending Review (CSR). Agree on the timing of the CSR with the President, the Minister of Finance, and the Budget Director as part of the overall SR program for the coming three years.
  - If Option A: Deliver a comprehensive SR for budget 2022.
  - If Option B: Deliver a comprehensive SR for budget 2023.

## IV. PROCESS FOR CONDUCTING A SPENDING REVIEW

### A. Introduction

49. **The process for undertaking the review—whether targeted or comprehensive—is largely the same, although comprehensive SRs require more resources.** When conducting an SR, it is necessary to follow the four key stages summarized in Table 3 and detailed in the following sections.

**Table 3. Chile: Overview of the Spending Review Process**

Stage	Objective	Key steps	Responsibility	Timing*
<b>Stage 1: Prepare review parameters</b>	To ensure success, this stage establishes the scope and objectives of the SR and the political mandate to promote ownership and participation	<ul style="list-style-type: none"> <li>• Set overall objectives</li> <li>• Establish review targets</li> <li>• Identify key roles and responsibilities</li> <li>• Set review timeline</li> </ul>	<ul style="list-style-type: none"> <li>• President</li> <li>• Ministers</li> <li>• DIPRES</li> <li>• Ministries</li> </ul>	September to October
<b>Stage 2: Analyze spending, and develop policy options</b>	To undertake the rigorous analytical work, which then informs the development of options and assessment of impacts	<ul style="list-style-type: none"> <li>• Review spending</li> <li>• Undertake benchmarking and analysis</li> <li>• Identify savings options</li> <li>• Prepare documentation</li> </ul>	<ul style="list-style-type: none"> <li>• DIPRES</li> <li>• Ministries</li> </ul>	November to March
<b>Stage 3: Decision making</b>	To engage ministers to determine which savings options should be implemented, based on the outcomes of the SR	<ul style="list-style-type: none"> <li>• Present findings &amp; recommendations</li> <li>• Decisions at minister level</li> </ul>	<ul style="list-style-type: none"> <li>• President</li> <li>• Ministers</li> <li>• DIPRES</li> </ul>	April to May
<b>Stage 4: Implementation</b>	To ensure that decisions are implemented as anticipated	<ul style="list-style-type: none"> <li>• Integrate into budget</li> <li>• Enact legislation</li> <li>• Monitor implementation of decisions</li> </ul>	<ul style="list-style-type: none"> <li>• President</li> <li>• Ministries</li> <li>• Congress</li> <li>• DIPRES</li> </ul>	June onward

Source: IMF team.

Note: \* = timing for a targeted SR to be integrated in the Chilean budget process, see Chapter V.

## B. Stage 1: Prepare Review Parameters

**50. Stage 1 sets up the parameters for the review.** It should provide the political mandate to promote ownership and participation, select the review areas, and identify the key review questions to be addressed; define roles and responsibilities; and provide clear objectives and savings targets.

**51. For targeted reviews, selecting the review areas is a strategic decision that requires engagement at the political level.** Vertical reviews that are conducted for individual spending ministries can be administratively simpler, but they limit opportunities to prioritize across the government. Horizontal reviews that examine spending by functions or policy objectives can deliver more robust outcomes because they can examine spending efficiency and effectiveness across the whole -of-government and better identify duplicative activities. However, they are also more cumbersome to manage as they cross administrative responsibilities.

**52. The SRU should prepare terms of reference (TORs) for the reviews in the coming year that will be issued by Presidential decree.** The areas for the SR and the strategic elements (such as objectives) should be coordinated with the Budget Director and the Minister of Finance. A sample template for TORs is included in Annex 4; templates should identify the following parameters specific to each review:

- The ministries involved in the review and the scope of the review.
- The ministers that participate in the steering committee (that is, the Minister of Finance the Budget Director, and relevant line minister).
- The chair (high-level staff from DIPRES) and members of the spending review team.
- The priorities for each spending review, for example, whether the objective is to improve value for money for programs, to consolidate spending within administrative items, or to identify funding to be reprioritized to strategic priorities.
- The specific targets set for each review, for example, if a percentage of savings is required to be returned to the budget or to be reprioritized.
- The expected outputs of the SR.
- The requirements of the line ministry, agencies, and other stakeholders to provide information to the SR team in a timely manner.

**53. SRs, whether comprehensive or targeted, are more effective when clear targets are specified at the start of the process.** Individual ministries generally have little incentive to offer saving options or identify low priority areas of spending, while the Budget Directorate seldom has all the information needed to uncover the range of potential policy opportunities. For these reasons, top-down targets for SRs can operate to incentivize reviews to identify policy proposals. Table 4 shows examples of SR targets set in different countries.



**Table 4. Examples of Targets for Spending Reviews**

<b>Country</b>	<b>Review Process</b>	<b>Review Target</b>
<b>Canada</b>	Strategic Reviews (2007–10)	Identify the lowest priority and lowest-performing 5 percent of programs, and propose higher priority, higher performing programs for reinvestment.
<b>Netherlands</b>	2010 Comprehensive Expenditure Review	Identify at least one option for a 20 percent reduction in spending over next four years.
<b>France</b>	2010–11 General Review of Public Policies	Achieve a 10 percent reduction in non-salary administration costs by year three.
<b>UK</b>	2007 Comprehensive Spending Review	Achieve 3 percent real savings per year for all departmental expenditure, and 5 percent real cuts in administration budgets.
<b>Denmark</b>	Special Studies process	Varying savings targets.

Source: IMF team.

**54. The objectives and targets for SRs should be informed by the medium-term fiscal outlook and objectives.** Even when the objective of an SR is to achieve better value for money, targets can help to set the level of ambition for the review. For example, review teams could be required to develop a certain number of options or to propose a certain share of expenditure available for reallocation within the area under review. Where fiscal consolidation is the objective, targets should be formulated with regard to the medium-term consolidation needs informed by forward baseline estimates that take account of spending pressures associated with existing programs, the costs of meeting new policy priorities, and the consistency with the government’s medium-term fiscal objectives.

**55. In terms of timeline, the TORs should be approved by the President by the end of October.** After the review areas have been announced, the SRU will draft the TORs in cooperation with the relevant sector division and line ministry and will start setting up the organizational structure for the review. September and October can be used to formulate the first list of questions to be answered and to collect the necessary data from the line ministries and public services. Doing this will enable DIPRES to be well prepared for the analysis and development of policy options starting in November.

## **C. Stage 2: Analyze Spending and Develop Policy Options**

**56. The second stage of the SR is where the analytical work occurs.** Working groups should review policy instruments and spending patterns in detail and should examine the relationships among inputs, outputs, and outcomes. The outcome of the analysis should be a menu of savings options to be considered in the decision-making stage. There are two streams of work in this stage: analyzing existing spending, and developing policy options.

## Analyzing Existing Spending

**57. The conduct of SRs requires spending to be examined from a range of different perspectives.** SRs should examine the following:

- *Appropriateness* of the program to determine how well it is aligned with government policy priorities.
- *Effectiveness* of different interventions (allocative efficiency) to assess how well programs and policies meet or contribute to their intended objectives.
- *Efficiency* to determine whether similar outputs or outcomes could be achieved with fewer inputs or through the application of different productive processes (operational efficiency).

**58. DIPRES and the Ministry of Social Development have strong experience with examining the appropriateness of government programs.** The SRU should obtain relevant ex-ante and ex-post evaluations that have been undertaken in the spending areas and should provide these to the working groups to inform analysis during this stage.

**59. In addition to existing ex-ante and ex-post evaluations, a mix of qualitative and quantitative data should be used in the analysis of effectiveness and efficiency.** Qualitative data could include literature reviews (including lessons from other countries), laws, regulations, interviews with stakeholders, and surveys/questionnaires that could be designed and applied as part of the analysis. Quantitative data could include input data (such as financial and employment information) output data (such as the number of hospital beds or schools), and outcome data (such as improved literacy rates, reduced income inequality). The key performance indicators monitored by DIPRES Public Management and Control Division should also be drawn on and assessed.

**60. The types of analysis used depends on the review objective and the review topic—whether comprehensive or targeted program/process review.** For example, reviews seeking to identify costs savings in government processes (such as procurement) would focus on the input/output relationship and could include a cost-benchmarking exercise. Reviews seeking to improve the value for money of government programs would place greater emphasis on spending effectiveness and performance analysis. Annex 5 provides examples of tools, techniques, and approaches to undertaking SR analysis; Box 4 provides an example of analysis undertaken in a SR in Denmark.

**61. The different types of analysis that could be conducted during this stage include:**

- *Analysis of spending inputs and trends.* Analyzing spending inputs, their composition, trends over time, and expected future pressures and cost drivers provide important context and can inform areas for focus within a review. Spending can be reviewed from different perspectives, including by economic classification (for example, share of the wage bill, recurrent, or capital

spending), by function (for example, administrative or social function), or by the different types of services provided. This process can provide insights as to how changes in the input mix may assist in reducing waste or improving outcomes. Cross-country comparisons can also identify areas where spending is low or high compared to peer countries and can point to areas that warrant closer scrutiny.

- *Evaluating spending efficiency or effectiveness.* Evaluating spending efficiency can be done through comparing unit costs of service delivery, whether across different forms of delivery, different jurisdictions within the country, or cross country. In addition, examining relationships between inputs and outputs (the production technology) can identify which input components are responsible for high or low spending and outcomes and can help identify areas for improvement. Another tool is the use of program logic analysis as an alternative to evaluations in assessing the performance of expenditure.
- *Benchmarking of data can also be a useful tool, if applied wisely.* International benchmarking is most useful to identify outlying costs or levels of expenditures (either very high or very low). The sample of comparator countries should be selected appropriately considering context factors, such as level of development, geographical proximity, or institutional set-up. Specific exogenous factors that might impact spending levels should also be considered. For example, the geography of a country will influence the costs of constructing infrastructure, or demographic patterns will affect the demand for certain types of services.

#### **Box 4. Spending Review of Online Education in Denmark**

In 2015, online education in Denmark was analyzed as part of a spending review (SR) of secondary schools. Prior to the SR, the government paid schools the same subsidy for students in online education and in traditional education, even though online education has the potential to be substantially more efficient. The analysis included three parts.

**1) Survey the number of students:** The analysis began with desk research of all secondary schools to find out how many schools were supplying online education, because this information was not already available. Subsequently, a survey was conducted to assess the number of students taking online education and the cost associated with it.

**2) Analyze and benchmark the cost of online education:** The survey and case studies of 9 schools were used to benchmark all schools with online education. The costs per student varied from 111,000 DKK to 37,000 DKK, which indicated that substantial efficiencies could be achieved by spreading best practices.

**3) Develop options for increased efficiency in online education:** The specific saving options were identified by analyzing and benchmarking the costs associated with specific activities in relation to the procurement and development of educational materials, how to plan and conduct the "lessons," as well as how to conduct exams and back office functions. Substantial efficiencies were, for example, identified by reducing the amount of educational materials developed at each school and instead buying it from publishers. The total savings identified amounted to 25 percent of the cost base.

Source: IMF team; "Kortlaegnings- og omkostningsanalyse af fjernundervisning på ungdomsuddannelserne mv", June 2015.

## Developing Policy Options

**62. Drawing on the findings of in-depth expenditure analysis, the SR should develop a menu of policy proposals.** There is merit in ensuring that this stage remains focused on the analytical and technical elements of the review and does not attempt to second-guess the likely political response to a possible measure. Box 5 provides examples of measures that are often considered.

**63. The SRU should define a set of criteria to guide both the program evaluation and the development of policy options.** For example:

- Is the activity aligned with the government’s priorities? Does the need for which the activity was originally designed still exist?
- Are activities effective in meeting their objectives, or is there a need to reconsider the programs design?
- Can the activity be better targeted?
- Are activities being delivered in a cost-effective way? Is there scope for them to be provided at reduced cost through changes in service delivery or simplified administrative arrangements?
- Is there room for larger contributions from the individuals who benefit?
- Is there scope to reduce duplication or consolidate programs aimed at achieving similar objectives?

### Box 5. Examples of Possible Measures to Be Considered

- Closure or reduction of redundant activities
- Better targeting of activities
- Consolidation of overlapping activities across government
- Merging administrative units
- Merging functions (shared services)
- Better work-time management
- Better procurement and management of stocks
- Outsourcing of activities
- Increased user-charges
- Price or regulatory changes to affect incentives and behavior
- Use of more cost-efficient instruments

Source: IMF team.

**64. The final task in Stage 2 is to prepare the documentation for decision makers.** A preliminary report produced by the working group with saving measures will be finalized for technical review within DIPRES and subsequent submission to the Steering Committee. The preliminary report will include the analysis, as well as the short-term measures that are included in the upcoming budget and the medium-term measures that are relevant for future budgets. A template for the preliminary report is provided in Annex 6.

**65. Policy proposals need to be carefully assessed for their potential impact, including on key stakeholders, as well as their implications for the budget over medium term.** To aid decision makers in weighing the various trade-offs, each option should include relevant information, such as the rationale for the proposal; the impact on affected stakeholders and citizens; any social, regional, and economic consequences; and details of the implementation requirements, such as the need for legislation or consultations with external stakeholders. Each proposal should include an assessment of the medium-term fiscal impacts, with costings using consistent methodologies and assumptions across proposals.

#### **D. Stage 3: Decision-Making**

**66. The third stage of the SR process is determining which policy proposals will be implemented.** Sufficient time needs to be allocated to this stage, particularly as the Steering Committee, and/or the President may request additional information to support their decision or amendments to existing proposals that will need to be reformulated to assess their financial and other impacts. To facilitate this process, it can be useful for the Budget Director to meet regularly with the working groups to ensure they are given appropriate strategic guidance in the development of policy proposals and to challenge the robustness of their costs and estimated impacts.

**67. The preliminary SR report should be considered by the Steering Committee and agreement reached on the recommended options.** The Steering Committee would then present the preliminary report to the President to get agreement on the approved saving measures.

#### **E. Stage 4: Implementation**

**68. The draft budget should include the approved measures and be presented to Congress with the final SR report.** The SRU will finalize the report based on the decisions of the President and will only include the approved saving measures. After technical and editorial review by DIPRES, the report should be sent to Congress with the budget submission and implemented saving measures reflected in the current budget year.

**69. Letters of agreement should be signed between the President and the implementing line ministries on the outcomes of the SRs.** These will be the main instruments to hold services accountable for implementing the saving measures agreed to during the SR process. These letters of agreement should identify key implementation actions, milestones, and reporting requirements.

**70. If saving measures require changes in legislation, these changes should be submitted in time for approval before the start of the budget year.** The required changes in legislation should be prepared in parallel with the preparation of the budget by the line ministry with input from DIPRES and in consultation with the Secretary for the Presidency, allowing the changes to be presented to Congress with the budget or shortly after.

**71. A process for monitoring the implementation of spending review outcomes needs to be established in DIPRES to ensure that identified measures are implemented.** Many measures require implementation activities; if these are not properly monitored, there is the risk that savings will not be realized. The ultimate responsibility for implementing the measures lies with the respective line ministries, especially when legislative changes are required. In DIPRES, the budget sector divisions, in particular, will have responsibility to ensure that:

- Approved measures will be included in the upcoming budget and in the following years.
- Approved measures are not subject to renegotiation with the purpose of postponement or exemptions for a period of time.
- Measures in the budget are followed by practical implementation plans, and by progress reports by line ministries.

**72. The SRU should develop a system to monitor the realization of savings from measures developed in the SRs.** Regular reports should be provided to the Budget Director, Minister of Finance, and President on the outcomes achieved through the SRS and their usefulness in delivering on fiscal consolidation targets.

## **F. Recommendations**

### **Short term:**

- Introduce a spending review framework that covers the four stages of a spending review process:

#### **Stage 1: Prepare review parameters and issue TORs:**

- Select review areas.
- Set overall objectives.
- Establish review targets.
- Identify key roles and responsibilities.
- Set review timeline.
- Identify key review questions and data requirements

**Stage 2: Undertake analysis of spending and develop policy options:**

- Commence meetings of working groups to review spending.
- Undertake spending analysis and benchmarking, as required.
- Identify savings options.
- Prepare documentation.

**Stage 3: Decision making**

- Present the findings and recommendations in the SR report.
- Arrive at decisions at the Steering Committee and Presidential level to determine measures to be included in budget.

**Stage 4: Implementation**

- Submit the budget law to Congress that incorporating the measures.
  - Enact any legislation amendments required to implement measures.
  - Publish the SR report with agreed measures.
  - Monitor the implementation of decisions.
- 
- Develop the capacity within DIPRES' sector divisions to monitor and implement multiyear saving measures.
  - Develop a system within the SRU to track and report on the realization of savings and other measures agreed to through the SR processes.

**Medium term:**

- At the end of each spending review, the President should sign letters of agreement with ministries on spending review outcomes.
- Line ministries should prepare and pursue any necessary legislation changes required to implement SR outcomes.

## V. INSTITUTIONALIZING SPENDING REVIEWS

### A. Introduction

**73. For SRs to be successfully institutionalized, it is important they have an established legal basis and are integrated with key elements of the PFM system.** Most importantly, SRs need to be integrated with the existing budget process and the performance and evaluation system. SRs also require changes to these systems to support the SR process and the implementation of SR results over the medium term. In Chile, elements needed for introducing a SR process are in place; however, some aspects of the PFM system need to be further developed to support SRs and help improve the efficiency and effectiveness of spending. Capacity also needs to be developed at DIPRES and especially in line ministries.

### B. Establishing a Legal Basis for Spending Reviews

**74. The government should add provisions to the Public Finance Law to ensure that the SR framework will be an integrated part of the budget process.** The SR framework requires a clear legal mandate to ensure it is conducted routinely and that it has a legitimate basis. The first round of SRs can be carried out by Presidential decree. It will, however, be important to amend the Public Finance Law to include the SR framework.

**75. The provision to the public finance law should be incorporated the introduction of an MTBF.** A MTBF would support the implementation of identified savings over the medium term. Building on the current medium-term fiscal framework (MTFF), a MTBF would add three outer years in every budget. The outer years would include indicative budgets for each ministry on a program level, thereby making it clear what the expected development in mandatory spending will be under current policy and legislation and when savings from SRs will have to be realized. This process would supplement the current MTFF, which would also be adjusted in the current year and the outer years to incorporate the changes in total expenditures expected from SR savings.

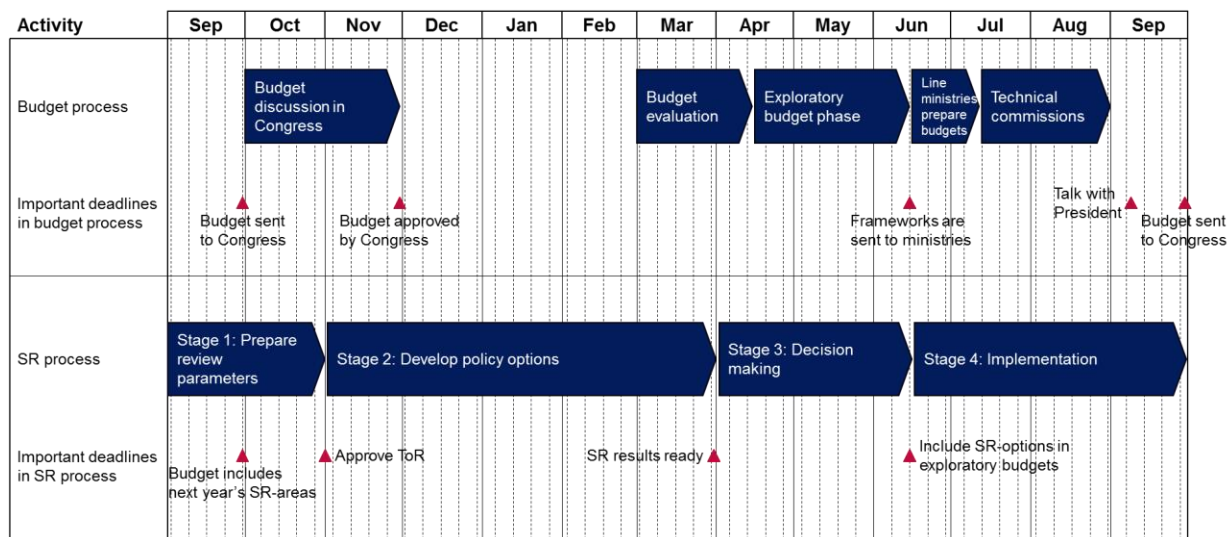
### C. Integrating Spending Reviews into the Budget Process

**76. SRs provide important input for budgetary decisions, and the SR process is most effective when it is integrated into the budget process.** International experience suggests that decisions on initiating new SRs should be taken when budget priorities and the fiscal outlook are being discussed, because SRs can be a tool to increase fiscal space for these priorities. In addition, the integration of SRs with the budget process should provide enough time to do thorough analysis of expenditure while delivering the results in time for the budget decisions.



**77. In Chile, the SR process can commence in September to provide enough time for the results to be ready for the exploratory budget phase in the spring.** As a large part of the budget priorities will be decided upon already in the exploratory budget phase that starts in April, the results of the SRs should be ready at this time. Figure 6 summarizes the current budget process and how it can be linked it with SR process in Chile.

**Figure 6. Integrating Spending Reviews into the Budget Process**



Source: IMF team.

**78. It will be important to have savings options ready for the exploratory budget phase.** The Chilean experience with ex-post evaluations has highlighted the importance of providing information in a timely manner for budgetary decision making. These evaluations have often not been used in the budget process because they have not been provided on time for the exploratory budget. The Public Management and Control Division in DIPRES has recently adjusted the timing of these reviews to link them with the exploratory budget. The proposed SR process allows for four months of analysis and development of saving options, which should be sufficient time for a thorough analysis of spending developments, cost drivers, and costing of different options. The SRU in DIPRES will be responsible for coordinating the process, providing guidance to the working groups, and making sure that enough progress is being made to have the saving options ready to be used in the exploratory budget phase.

**79. The decision on savings options should be included in the budget frameworks when they are sent to the line ministries.** The design of Chile's budget process means that key decisions on budget priorities will have been made when DIPRES prepare the budget frameworks that are usually sent to line ministries in mid-June. Accordingly, it will be important to decide which of the identified savings options to implement and to include these in the proposed budget frameworks.

**80. It will be important to implement savings not only in the upcoming year but over the medium term, and an MTBF would facilitate this process.** Many savings cannot be fully realized in the first year; some will even require initial investments before the savings can be achieved. The identified savings can be lost if they are not locked into future budgets when the decision is made. Line ministries will have to be informed about the budget profile for a four-year period, taking account of the savings implemented in current year and those to be implemented in the outer years. This process also implies that each SR would include a four-year implementation plan, which DIPRES will follow up on.

**81. Line ministries should incorporate the agreed savings in their budget submissions in July and prepare any necessary changes to existing laws.** After receiving the budget frameworks, line ministries usually have two to three weeks to prepare their budget submissions. The sector divisions in DIPRES will work with the relevant line ministries to ensure that the budget submissions include the savings and that any necessary changes to existing laws are being prepared to be presented to Congress with the budget.

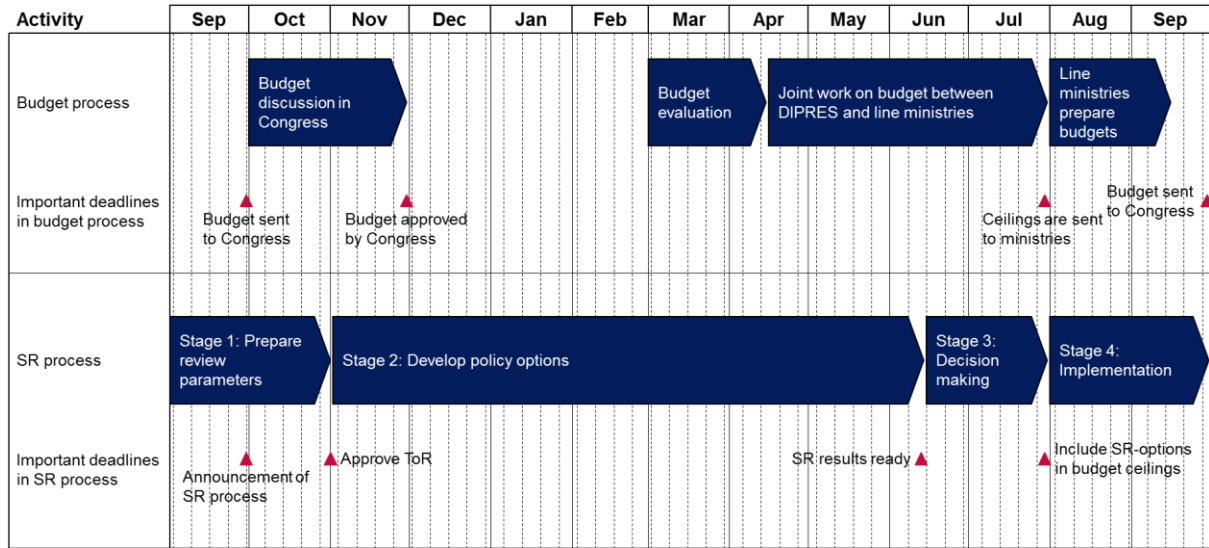
**82. It is good international practice to publish the results of the SR.** The report can be published and sent to Congress with the budget on the last day of September. Publishing the report will improve the transparency of the budget process, as well as of the information provided to Congress and the public about the analysis that led to the included savings.

### **Conducting a Comprehensive Spending Review**

**83. A comprehensive spending review will require significantly more time and major changes to the budget process in the year it is undertaken.** Analyzing a larger share of expenditure at the same time increases the options to reallocate spending and reform the public sector, but this is a very resource-intensive undertaking. A comprehensive SR will take around seven months to conduct and can therefore not be conducted within the existing budget calendar (Figure 7). In addition, all line ministries must allocate substantial resources to the process, and both sector divisions and evaluation divisions in DIPRES will have to be allocated to the working groups. This will be their primary job for the period of the review. Thus, no other evaluations would be conducted during this period.

**84. For the year in which it takes place, the comprehensive SR will largely replace the internal exploratory budget phase.** It will not be possible for DIPRES to analyze spending, develop policy options, and develop new budgets by itself. Budgets and budget ceilings will instead have to be developed in cooperation between DIPRES and line ministries as a part of the SR process. A comprehensive SR will require a very different approach to the budget process than has been used for many years.

**Figure 7. Example of a Comprehensive Spending Review Process**



Source: IMF team.

## D. Linking the Spending Review Process with the Evaluation Framework

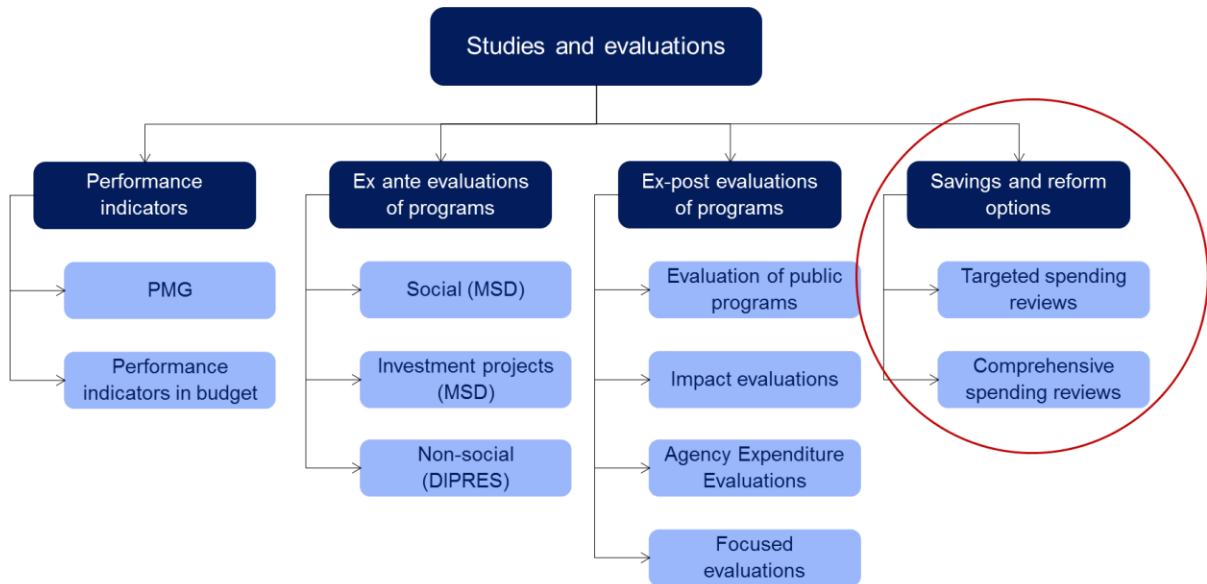
**85. SRs will introduce potentially two new types of reviews to the current Chilean performance and evaluation system.** Figure 8 sets out the current types of studies and evaluations conducted and the new type of reviews that would be added.

**86. Current evaluations and performance indicators can provide useful insights into the performance of programs and institutions that can help to guide the SR process, as discussed in Chapter IV.** To understand the results and effectiveness of programs, the Public Management and Control Division in DIPRES conducts 20 to 25 ex-post evaluations of existing public programs each year. From 2011 to 2017, a total of 143 programs was evaluated. Of these programs, only 4 percent could be categorized as having good performance, while 58 percent underperformed. Insights such as these can be used to guide decision making on policy areas and programs for upcoming SRs; for example, reviews could focus on merging overlapping programs. Data from the evaluations can also inform SR analysis, as could further development of cost-benefit and efficiency indicators.

**87. Going forward, the performance and evaluation systems can be changed to better support SR.** The ex-post evaluation framework can be adjusted to follow up on the implementation of saving options and to inform upcoming SRs, for example, by redesigning the impact evaluations to include costing and assessing the practicality of fixing underperforming programs. The performance indicators in the budget can be adjusted to reflect changes in targets, outputs, and outcomes after an SR. It will be relevant to include the implementation of

SR measures in the PMGs, which are used for performance bonuses, to support the realization of savings.

**Figure 8. New Types of Reviews in the Chilean Performance and Evaluation Systems**



Source: IMF team.

**88. Future SRs will benefit from more data on the efficiency of existing programs, as well as from a consistent framework for ex-ante evaluations of new programs, including the financial aspects.** DIPRES conducts one to two agency expenditure evaluations per year. To date, these evaluations have not proved successful in identifying savings. Assigning a target for the size of the saving options to be identified in these evaluations could provide more data on efficiency and on options that can be included in future SRs. The current system of shared responsibility of ex-ante evaluations between DIPRES and MSD has resulted in some distribution of evaluative capacity across the center of government. The relationship between the DIPRES and MSD, however, is complex, as the ministries use different methodologies for conducting the ex-ante evaluations and have different incentives in the process. The ex-ante framework should be amended to align the methodologies and to ensure that the evaluations always include considerations of short and long-term costs, as well as value for money in new programs and the sign-offs from DIPRES before approval of new programs.

**89. It will be beneficial to review the annual number of ex-post evaluations, because the SR process will add another layer to an already comprehensive performance and evaluation system.** Introducing SRs will carry some risk of evaluation fatigue across ministries, because of the considerable number of annual evaluations. It will be important to take into account how the evaluations can underpin the SRs and what number of evaluations will be sufficient to meet the other relevant objectives.

**90. Aligning program structures in the budget with the program structures used for evaluations would also improve the usefulness of evaluations.** The number of public programs—as classified in the evaluation framework—amounts to approximately 700, while the budget contains around 300 programs. In general, the program classification in the budget has been found to be too high, which makes it difficult to align the allocation of resources with policy objectives. This program classification makes it harder than necessary to use the ex-post evaluations to inform the budget process. Better alignment could be achieved if the program classification in the budget would be adjusted to include more details of actual programs, including policy objectives and the budget allocation exclusively for that objective.

## **E. Supporting PFM Reform and Building Capacity for Spending Reviews**

**91. International experiences suggest that certain elements of a PFM system need to be in place to be able to conduct successful SRs.** In general, Chile has a strong PFM system that provides a good starting point for the SR process. There are, however, certain gaps, and it will be important to close them successfully to realize the savings (Table 5). The lack of an MTBF, in particular, will prove challenging to the implementation of savings identified through SRs over the medium term.

**92. The exploratory phase of the budget process provides ministries with spending envelopes, but these are “floors” rather than “ceilings.”** Ministries expect these spending envelopes to be adjusted upward during the budget process as they persuade DIPRES to make additional provisions for costs pressures and new initiatives. This budgeting approach does not incentivize ministries to seek their own internal trade-offs and reallocations; instead, it requires DIPRES to solve ministries’ pressures through increased overall allocation levels.

**93. It will be important to be able to account for the savings that have been included in the budget, as discussed in Chapter IV.** Chile should develop a methodology for how to follow up on the realization of savings. If the saving measures are not implemented as planned, cost pressures might arise in subsequent budget processes.

**Table 5. Key Elements of a PFM System**

	<b>What Is Needed?</b>	<b>Why Is It important?</b>	<b>Status in Chile</b>
1	<b>Credible annual budget</b>	Implement the budget as planned.	This is in place.
2	<b>Fixed expenditure envelope</b>	Require decision-makers to make trade-offs.	This is in place on an aggregate level, not ministry level.
3	<b>Clear political priorities</b>	Ensure consistency between political ambitions and available resources over the medium-term.	This is in place.
4	<b>Financial and non-financial performance information</b>	Compare trends in expenditure, inputs, outputs, and outcomes.	This is in place.
5	<b>Analytical capacity</b>	Develop the ability to identify areas of inefficiency and to develop reform proposals.	This is in place.
6	<b>Methodology for accounting for savings</b>	Ensure that savings identified can be used to offset spending pressures within budgets.	This needs to be developed.
7	<b>External challenge</b>	Challenge existing ways of working and inject new ideas.	This could be done by the Fiscal Council and Productivity Commission.
8	<b>Medium term budget framework</b>	Incorporate the results of the review in multiyear budget allocations for each ministry.	Chile has an MTFF but no MTBF.
9	<b>Ability to reprioritize expenditure</b>	Improve the capacity to move resources from lower to higher priority areas.	This is in place in DIPRES, but not well developed in line ministries.
10	<b>Time and resources</b>	Allow sufficient time to undertake analysis, develop reform options, integrate the reform options into budgets, and plan implementation.	Timeline is tight; adequate resources are needed to achieve the government's objectives.

Source: IMF team.

**94. External institutions can support SRs by challenging the public sector's existing approaches to delivery and ways of doing business.** The Fiscal Council could consider taking on such a role when it receives the new and broader mandate in the spring of 2019, which will make the council independent of the government. Also, the Productivity Commission could provide important new ideas and challenges to existing ways of working in key sectors.

**95. DIPRES should publish reports on cost pressures and should undertake an exercise to understand mandatory expenditure commitments in existing legislation.** Chile's public finances face challenges from cost pressures, especially in the health sector and the wage bill, as well as from mandatory spending commitments in existing legislation. Publishing analysis of the size and consequence of cost pressures can inform the public debate on the budget and the fiscal outlook. Such analysis could be used in upcoming SRs. Furthermore, the process of analyzing cost pressures can help to develop benchmark data that would be useful when undertaking SRs.

**96. The lack of a MTBF and the limited scope of the budget process for considering expenditures for one year ahead means that:** (1) DIPRES is not in a position to drive medium-term reprioritization in ministries by requiring them to demonstrate the affordability of their existing and proposed activities over the medium term; (2) discussions about medium-term pressures, such as demand trends and cost inflation, are not given sufficient focus during the decision-making process; (3) there are only weak incentives to implement structural reforms that may deliver savings in future years, rather than in the upcoming budget year. The provision of forward estimates to ministries and Congress at an aggregate level, rather than ministry by ministry, or program by program, means there is no agreement on the expenditure path that can form the basis for budget strategy.

## **F. Recommendations**

### **Short term**

- Amend the Public Finance Law to include provisions of an ongoing SR process and the introduction of a medium-term budget framework.
- Integrate the SR process into the annual budget process so that policy options are ready for the exploratory budget phase in the spring.
- Review and adjust the performance and evaluation framework to better inform the budget and SR processes, including reviewing the number of existing evaluations.
- Use ex-post evaluations and the PMGs to follow up on the implementation of the SR savings options and reforms.
- Assign a saving target to each agency expenditure evaluation to ensure that saving options are identified for inclusion in the budget process.
- Amend the ex-ante evaluation framework to align the methodology across DIPRES and MSD and to include the budgetary impacts of a new program and sign-off from DIPRES before final approval.

### **Medium term**

- Implement an MTBF that provides all ministries with indicative budget for three outer years, which can serve as baseline for upcoming budgets and for analysis of cost pressures in key policy areas.
- Align the program structure in the budget with the program structure used for evaluations to make it easier to use program evaluations to inform the budget process and to improve the transparency of the budget.
- Publish reports of key costs in the public sector pressures and undertake measures to understand the level of mandatory spending in existing legislation to help inform the public debate and thereby priming upcoming SRs.

## VI. NEXT STEPS

### A. Develop a Concept Note and Reinforce the Spending Review Unit

**97. DIPRES should develop a concept note to set out the approach to implementing SRs in Chile.** (Annex 3 provides an example of an outline). This should include:

- The objectives of the SR framework, including context and motivation for implementing them
- The roles, responsibilities, and governance structures
- The SR approach, including the timing of reviews, how they will be conducted, and a recommendation on when the first comprehensive review should take place.
- The criteria for selecting targeted reviews and identifying which light-touch pilot review will be conducted in 2019
- Which actions (including legal changes) are necessary to formally introduce the SR framework, and what will be the role of the President in securing commitments across government for the work
- Implementation of reviews, including monitoring, how SR outcomes will be integrated into the budget process, and what changes to the budget process will be required to ensure this can happen. Foremost among these changes are (1) ensuring that savings targets are set against an agreed baseline in any review area; this will need to be agreed between DIPRES and ministries to a timeline earlier than the current exploratory budget; and (2) an agreed approach to medium-term forecasts between DIPRES and ministries, disaggregated at ministry and program levels so that they can be used as the basis for SR analysis.

**98. The concept note should be sent to the Budget Director and Minister of Finance in the first quarter of 2019. Once an initial pilot review is agreed on, a working group should be established to bring together the SRU, relevant DIPRES leads, and relevant ministries (likely to be more than one if this is a cross-cutting review, for example, of property).** There would be value in establishing a working group for any review proposed for 2020 (for example, hospitals) as soon as it has been agreed on by the Minister of Finance and the President so that preparatory work can begin. The SRU will need to work with all ministries responsible for shortlisted SR projects to ensure that accurate advice is provided to the Minister of Finance and President to inform their final decision on which SRs will specifically be commissioned, well in advance of them being reported to Congress in September.

**99. An urgent priority is to build capacity in the SRU to coordinate and, where appropriate, deliver each element of the concept note.** The pressing issues will be agreeing on the overall SR strategy and concept note, identifying reviews, communicating with ministries,



and preparing legal changes to put the SR framework into law. DIPRES should develop a resourcing plan for SRU for agreement with the Budget Director as soon as possible. This resourcing plan should be linked to the concept note; it is a priority for the SRU to develop a detailed work plan for the SRU, and for DIPRES more broadly, that reflects the actions set out in this report. Recruitment to SRU will need to begin immediately, but it could be phased to build the team up to its full capacity (6-8 people) in advance of a comprehensive review.

**100. The SRUs also need to develop communication and engagement plans to set out how they will ensure that ministries and public bodies are aware of and bought into SR programs.** Alongside this, a capability improvement plan is needed, which should specify which guidance and training are to be developed and delivered to support ministries to engage effectively in SRs. This needs to begin well in advance of the comprehensive exercise.

**101. SRU should also consider what wider communications and engagement are needed.** A number of independent groups, such as the Fiscal Council, Productivity Commission, and Comptroller General, have an interest in the SR framework and may add value to DIPRES' thinking in the early stages. There is also a strong case for engaging Congress early and ahead of formally reporting the SR proposals in September. However, engagement with Congress will need to be considered by DIPRES and the Minister of Finance, considering how this engagement should fit with their ongoing work through the year with Congress on fiscal issues. We recommend that DIPRES set up a formal group to engage external experts around each review; this should be done when the first review topic is agreed on.

## **B. Selection of Reviews for FY2020 and Beyond**

**102. The selection of the first pilot review needs to be made swiftly if it is to inform the allocation for budget 2020, which will be agreed on by Congress in September 2019.**

Because of the compressed timeline and the fact that it is the first review to be conducted, a topic should be identified that is (1) likely to succeed, (2) has reasonable existing data or the potential to gather them quickly, (3) can deliver "quick wins" in realizing savings, and (4) is likely to be politically palatable.

**103. Government property is a good candidate for the 2019 pilot review.** Work is already underway in DIPRES to improve estate efficiency and to gather information on the forward pipeline of lease renewals across the government. A formal commission to ministries to complete this data exercise would provide a basis for analysis of which leases are due to be renewed in the next three years. Based on the analysis of that data in discussion with ministries, and the work that is being taken forward to benchmark estate costs against market rental prices, it is feasible that an ambitious but realistic savings target could be agreed on by September for those ministries who expect to renew their rental leases in the next three years. This savings forecast could then be built into the appropriate budget line of these ministry's allocations in the 2020 budget, with savings to implemented over the period. Although this is likely to result in modest initial contributions to the US\$1.1 billion per annual target, the priority at this stage is to

establish and prove the framework. Furthermore, the authorities' ambition to deliver tangible results from the SR approach for budget year 2020 requires that the first review be highly targeted. In addition, as the example from the UK spending review 2010 shows (Box 6), such work can initiate long-term reforms that deliver significant savings yields, including from asset sales.

### Box 6. Case Study: UK Government Property Optimization 2010

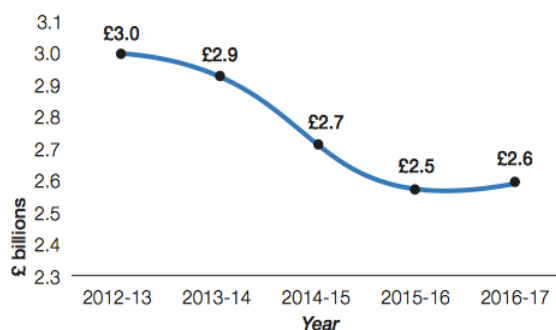
In 2010, the UK undertook a comprehensive spending review (SR) aimed at delivering significant fiscal consolidation. Reviewing operational costs was a central workstream of the SR; a number of areas were identified for savings targets, including ICT, office supplies and general procurement, and property. Property was regarded as a challenge because of the extensive estate occupation of the government, highly variable costs and rates of utilization, and poor central information.

To address this challenge, the Government Property Unit (GPU) was set up during the SR as a central government unit, with the mission of increasing the efficiency and effectiveness of the government estate, supporting public services, and improving property management capability across the government. Progress was quickly made in identifying significant opportunities for estate rationalization, both through lease renewals and through review of the government's owned estate. The 2010 SR identified stretching savings for departments to make over four years from rental savings, increased utilization, and disposal of property and land assets. The GPU then worked closely with ministries to help them realize these savings.

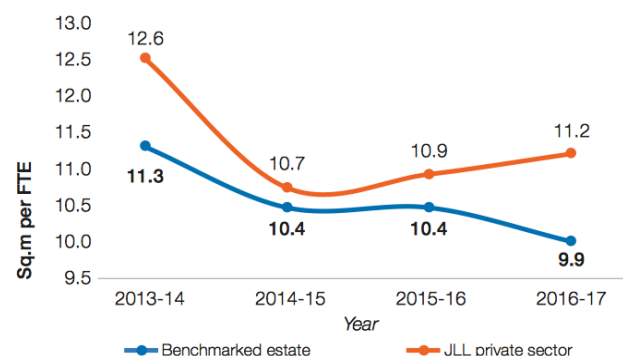
This work of 2010 SR has provided a platform for ongoing reform. Now reconstituted as the Government Property Agency, the work of increasing efficiency and effectiveness of the estate continues apace. The government reports that since 2010 as a result of this work:

- The size of the estate has fallen by over 25 percent.
- More than £1 billion in annual costs have been saved.
- The GPU has overseen the collection of more than £3 billion capital receipts from the sale of surplus land and property.

**UK government central estate costs for last 5 years of reporting (2016–17 increase due to increase in scope of reporting)**



**Utilization rates (space per employee), government nonspecialist estate and comparable private sector**



Source: IMF team.

**104. A substantive targeted review should be agreed on to be conducted in 2020 to deliver savings for the 2021 budget onward.** Based on the evidence we have seen, health—and hospitals, in particular—would be a good option for this substantive review. The Ministry of Health is already beginning to gather data on long-term cost pressures and demand trends; the ministry is also reviewing the structure of provision to see whether standardized models for non-specialist care, and more precise healthcare targeting based on patient characteristics, can improve efficiency and outcomes. In conjunction with this, health is a substantial part of the budget and costs continue to rise. All of this provides a good basis for an SR. However, the SRU should undertake some of its own analysis, with input from the sector teams, to look at trends and cost pressures, and to identify a shortlist of options that can be delivered to the Budget Director and Minister of Finance. The same deliverability tests as those for selecting the 2019 review should apply to review choices for 2020: availability of data, tight targeting of the scope, and political support for reform.

**105. The action plan in Annex 1 sets out in detailed the next steps for establishing the SR framework.** It also details the actions needed to institutionalize the framework over the short and medium term.

## Annex 1. Action Plan

Recommendations	Actions				Actors
	2019	2020	2021	2022	
<b>III. Establishing the spending review (SR) framework in Chile</b>					
Develop and agree on the concept note for the overall framework.	<p><b>Quarter 1:</b> Develop a concept note setting out the SR framework, including the organizational structure, objectives of SRs, , and process for selecting and conducting reviews.</p> <p><b>Quarter 2:</b> Hold consultations within the Ministry of Finance, the Secretary of the President, and other entities on the concept note; seek Presidential approval for the concept note.</p>				DIPRES/ Minister of Finance/ President
Agreed on the targeted SR pilot.	<p><b>Quarter 1: Review the pilot shortlist</b> (Minister of Finance and Budget Director); present recommendations to the President.</p>	<p><b>Quarters 1-4:</b> The Minister of Finance and President review overall SR program and provide leadership and direction for targeted reviews.</p>	As 2020	As 2020	DIPRES/ MOF/ President
Conduct the pilot SR in 2019.	<p><b>Quarter 1:</b> Secure Presidential approval of the TOR for the pilot.</p> <p><b>Quarter 2:</b> Establish the Steering Committee; begin delivery of the pilot review.</p> <p><b>Quarter 3:</b> Conclude the review and report the findings to the Steering Committee; decide which options to include in the 2020 budget.</p>	<p><b>Quarters 1-4:</b> Implement measures.</p>			DIPRES/lin e ministry /MOF / President

Recommendations	Actions				Actors
	2019	2020	2021	2022	
Identify the SR to be carried out in 2020.	<b>Quarters 1-4:</b> Agree on and initiate spending review process (see Section 4 of the Action Plan)				DIPRES/ line ministry/ MOF/ President
Identify spending review(s) to be carried out in 2021.		<b>Quarters 1-4:</b> Agree on and initiate the spending review process (see Section 4 of Action Plan).			DIPRES/ line ministry/ MOF/ President
Agree on timing of comprehensive spending review (CSR).	<b>Quarter 2:</b> Put options on CSR timing to Minister of Finance and Budget Director. <b>Quarter 3:</b> Agree on CSR timing with MOF and the President as part of overall SR program for coming three years.				DIPRES/ Minister of Finance/ President
If Option A: Deliver a comprehensive SR for budget 2022.		<b>Quarters 1-3: Develop</b> CSR planning and capacity building. <b>Quarter 4:</b> CSR Stage 1: Prepare review parameters.	<b>Quarters 1-2:</b> Complete SR Stage 2: develop policy proposals; begin SR Stage 3: decision making <b>Quarter 3:</b> Complete SR Stage 3: Decision making; SR Stage 4: implementation		

Recommendations	Actions				Actors
	2019	2020	2021	2022	
If Option B: Deliver a comprehensive SR for budget 2023.	As above	<b>Quarter 1-4:</b> Conduct CSR preparation.	<b>Quarters 1-3:</b> CSR planning and capacity building <b>Quarter 4:</b> CSR Stage 1: prepare review parameters	<b>Quarters 1-2:</b> Complete SR Stage 2: Develop policy proposals; begin SR  Stage 3: decision making <b>Quarter 3:</b> Complete SR Stage 3: Decision making SR Stage 4: implementation	DIPRES/ Minister of Finance/ President
Strengthen SRU capacity.	<b>Quarter 1:</b> Develop SRU resourcing plan; conduct recruitment. <b>Quarters 2-4:</b> Conduct recruitment to build SRU capacity.	<b>Quarters 1-4:</b> Develop SRU skills and capabilities; continue recruitment towards 6-8 staff to be in place for the CSR.			DIPRES

<b>IV. Process for conducting a spending review</b>					
After pilot review, conduct full SR following the four stages	<p><b>Quarter 4:</b> Stage 1: Prepare review parameters and issue terms of reference, including:</p> <ul style="list-style-type: none"> <li>- Select review areas</li> <li>- Set overall objectives</li> <li>- Establish review targets</li> <li>- Identify key roles and responsibilities</li> <li>- Set review timeline</li> <li>- Identify key review questions and data requirements</li> </ul>	<p><b>Quarter 1:</b> Stage 2: Undertake analysis and develop options:</p> <ul style="list-style-type: none"> <li>- Commence meetings of working groups to review spending</li> <li>- Undertake spending analysis and benchmarking, as required</li> <li>- Identify savings options</li> <li>- Prepare documentation</li> </ul> <p><b>Quarter 2:</b> Stage 3: Decision making</p> <ul style="list-style-type: none"> <li>- Present findings in SR report</li> <li>- Decisions at Steering Committee and President level to determine measures to be included in the budget</li> </ul> <p><b>Quarter 3:</b> Stage 4: Implementation</p> <ul style="list-style-type: none"> <li>- Submit budget law to Congress incorporating measures</li> <li>- President sign letters of agreement with ministries on SR outcomes</li> <li>- Enact any legislation amendments required to implement measures</li> <li>- Publish SR report</li> </ul> <p><b>Quarter 4 (commencing new SR):</b> Stage 1: Prepare review parameters and issue terms of reference including:</p> <ul style="list-style-type: none"> <li>- Select review areas</li> </ul>	As 2020	As 2020	DIPRES/ relevant line ministry/ Minister of Finance/ President

		<ul style="list-style-type: none"> <li>- Set overall objectives</li> <li>- Establish review targets</li> <li>- Identify key roles and responsibilities</li> <li>- Set review timeline</li> <li>- Identify key review questions and data requirements</li> </ul>			
Develop the capacity within DIPRES sector divisions to monitor and implement multiyear saving measures	<b>Quarter 4:</b> Develop a tool for monitoring and implementing savings in relevant ministries' baselines.	Ongoing	Ongoing	Ongoing	SRU/ sector divisions
Develop a system within SRU to track and report on realized savings and other measures agreed in SR process.	<b>Quarter 2:</b> Develop SRU tracking system. <b>Quarter 3:</b> Agree on tracking approach and share it with ministries.	<b>Quarters 1-4:</b> Track realization of savings; report quarterly to Budget Director. <b>Quarter 3:</b> Add agreed on measures from new SR.	As 2020	As 2020	SRU
Line ministries prepare and pursue any necessary legislative changes required to implement SR outcomes	<b>Quarter 3:</b> Identify and plan implementation of required legislative changes to implement outcomes of pilot SR; submit legislative changes with budget law. <b>Quarter 4:</b> Pursue any further legislative requirements.	<b>Quarters 1-4:</b> Support implementation of necessary legislation. <b>Quarter 3:</b> For next SR, submit legislative changes alongside budget law.	As 2020	As 2020	DIPRES/ relevant ministries/ Congress
Publish SR reports.	<b>Quarter 3:</b> Publish outcome of pilot review.	<b>Quarter 3:</b> Publish review outcomes.	As 2020	As 2020	SRU



<b>V. Institutionalizing spending reviews</b>					
Amend the Public Finance Law to include SR and MTBF frameworks.	<p><b>Quarter 3:</b> Identify and plan implementation of required legislative changes to implement SRs and MTBF.</p> <p><b>Quarter 4:</b> Have new provisions approved the Minister of Finance and President.</p>	<b>Quarter 1:</b> Present law to Congress for approval.			DIPRES/ Minister of Finance/ President/ Congress
Develop and introduce formal MTBF with indicative budgets for ministries for three outer years.	<b>Quarter 3:</b> Agree on work plan for MTBF development.	<p><b>Quarter 1:</b> DIPRES and line ministries share MTBF forecasts.</p> <p><b>Quarter 2:</b> Include MTBF forecast in budget frameworks when they are sent to line ministries; adjust guidelines to require ministries to submit budgets that include indicative budgets for the three outer years.</p>	<p><b>Quarters 1 and 2</b> Follow same procedures as in 2020.</p> <p><b>Quarter 3:</b> Include outer years in next Budget. Report MTBF outputs to Congress, when budget is presented.</p>	Continue to include outer years in next budget.	DIPRES/ line ministries/ Congress
Integrate SR process into the annual budget process so that policy options are ready for the exploratory budget phase in the spring.	<b>Quarter 3:</b> Reflect outputs of pilot review in budget allocations for 2020; submit next SRs to the Minister of Finance and President for approval; publish next SR areas along with the budget.	<p><b>Quarter 1:</b> Share baselines with ministries to allow for calculations of savings targets.</p> <p><b>Quarter 2:</b> Incorporate outcome of discussions with ministries on baseline and forecasts into exploratory budgets.</p> <p><b>Quarter 3:</b> Monitoring of savings realization and effect on baselines in the budget.</p>	As 2020	As 2020	DIPRES/ line ministries/ Minister of Finance/ President

Adjust the performance and evaluation framework to better inform the budget and SR processes.	<b>Quarter 3:</b> Review evaluation structure and set options for alignment. <b>Quarter 4:</b> Include saving options from pilot SR in next year's PMGs.	<b>Quarters 1-4:</b> Use ex-post evaluations to follow up on implementation and impact of saving options, reforms, or legislative changes; include implementation of saving options in PMGs; review number of evaluation tools.	Continue to use evaluation tools to follow up on implementation of SR measures; include implementation of saving options in the PMGs.	As 2021	PMCD
Assign a saving target to each agency expenditure evaluation (AEE).	<b>Quarter 4:</b> Update AEE guidance, and implement revised model	<b>Quarters 1-4:</b> Implement new AEE model with savings options feeding into the budget process	As 2020	As 2020	PMCD
Amend the ex-ante evaluation framework to align methodologies and include costing of social and non-social programs to be agreed with DIPRES	<b>Quarter 3:</b> Agree with MSD on how to align methodologies in ex-ante evaluations. <b>Quarter 4:</b> Identify and plan implementation of any required legislative changes to implement new ex-ante framework.	<b>Quarter 1:</b> Present law to Congress for approval; update ex-ante guidance. <b>Quarters 2- 4:</b> Implement new ex-ante model.	Continue to use new ex-ante model.	As 2021	PMCD/ MSD/ Minister of Finance/ Congress
Align the program structure in the budget with the program structure used for evaluations.		<b>Quarter 4:</b> Review program structure, and set options for alignment	Refine options for program structure reform and agree with ministries; seek changes in Public Finance Law, if necessary	Begin implementation.	Whole government

<p>Publish reports of key cost in the public sector pressures; undertake measures to understand the level of mandatory spending in existing legislation.</p>		<p><b>Quarter 1:</b> Develop work program for cost pressure analysis, which should be aligned with the SR program  <b>Quarter 2:</b> Undertake first analysis on cost pressures from mandatory spending</p>	<p>Publish cost pressure analysis.</p>	<p>As 2021</p>	<p>SRU</p>
--	--	---	--	----------------	------------

## **Annex 2. International Experience with Spending Reviews**

### **A. Denmark's Experience with Targeted Spending Reviews**

Denmark has a system of SRs known as “special studies,” which operate on an annual cycle as part of the budget preparation process. A number of targeted SRs is undertaken each year; review topics and terms of reference (TORs) are typically prepared and nominated by the Ministry of Finance in cooperation with the relevant line ministry and are subject to approval by the Economic Coordination Committee (ECC) of the Cabinet. The SRs are typically initiated in February in connection with the first discussion of next year’s budget in the ECC.

The reviews are typically vertical reviews that focus on a specific agency or program. The primary objective of these reviews has been to increase fiscal space for new priorities, although objectives also include facilitating fiscal consolidation and increasing value for money. The possible saving measures considered in the reviews can vary from increasing efficiency, for example, in back-office functions to the ability to better harmonize grants with similar programs to improve incentives and better target public service delivery.

Benchmarking organizational entities within the policy area is often used to guide the analysis when focusing on increasing efficiency. Examples include benchmarking procurement costs across schools, administrative costs across police stations, and time spent in direct contact with citizens and companies across job centers. Subsequently, the specific actions and behavior that make up best practices can be identified, and the potential savings of spreading best practices across relevant entities can be costed.

Special studies are generally carried out by working groups consisting of the Ministry of Finance and the relevant line ministry. External consultants are often engaged in the analysis. Working groups usually present their findings to the ECC for a decision in June. The final report is intended to be a joint report agreed on by the Ministry of Finance and the line ministry; where the two disagree, separate recommendations may be made.

### **B. The Netherland's Experience with Spending Reviews**

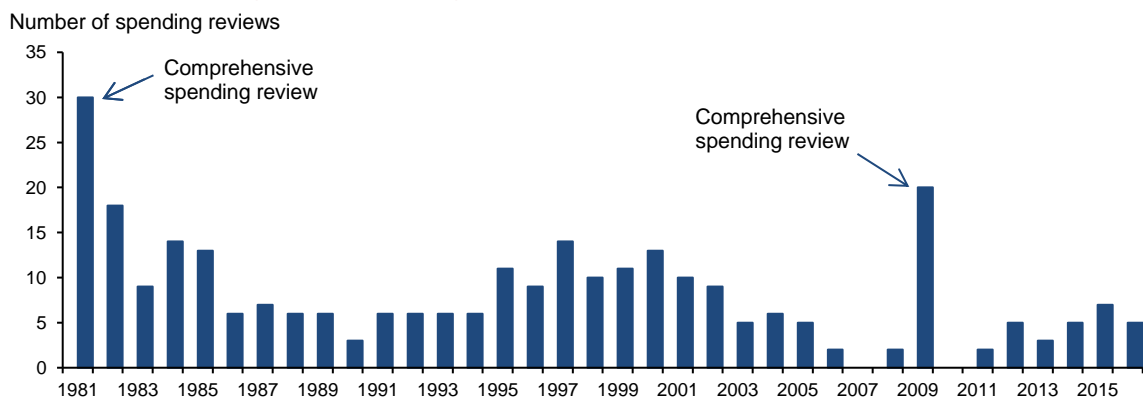
The Netherlands has—similar to Denmark—a long tradition of undertaking “special studies” SRs as a part of the annual budget cycle. The review topics and TORs are prepared by the Ministry of Finance and presented to the Cabinet at the same meeting as the budget for the upcoming year. The TORs are then included in the budget as annexes. The Budget Director chairs an interdepartmental steering committee that oversees the process, and working groups carry out the specific reviews. An independent chairman leads each working group of independent experts and civil servants (director level or higher) from the Ministry of Finance, the Prime Minister’s Office, and line ministries. A secretariat with employees from the Ministry of Finance and the most relevant line ministry supports each working group.

An important characteristic of the Dutch SR framework is the independence of the working groups. The SR reports have an independent, analytical, and nonpolitical status; the options

proposed can go against current government policy. There is no right of veto within working groups on any policy proposal being considered. The Cabinet decides which options to include in the budget, but it does not change the reports before publishing. Instead, it decides on a "Cabinet's View" that is published with the report.

The number of SRs varies from year to year, typically from three to seven reviews (Figure 9). In 1981 and 2009, comprehensive SRs were undertaken. In 2009, the government identified 20 policy areas to be reviewed; it required each working group to develop a menu of saving options with at least one option capable of delivering a 20 percent reduction in spending or tax expenditures in the area under review over a four-year period. The purpose of this was to encourage creativity and bold thinking in the working groups. The process had a significant impact; the parties used the options in their manifestos before the 2010 election. An estimated 20 percent of the measures in the 2010 Coalition Agreement originated in the comprehensive SR reports.

**Figure 1. Spending Reviews in the Netherlands, 1981–2016**



Sources: IMF team; Schoch, Mickie, and Corina den Broeder. 2013. "Linking Information on Policy Effectiveness and Efficiency to Budget Decisions in the Netherlands," *OECD Journal on Budgeting* 12(3).

### C. The Slovak Republic's Experience with Spending Reviews

The Slovak Ministry of Finance (MOF) has initiated a program of SRs to improve the efficiency of public expenditure and meet the medium-term objective of restoring general government finances to balance or surplus. The authorities started with a rolling series of policy and targeted reviews covering around one-fourth of central government spending each year, with the aim of covering most of central government over the four-year parliament. The SR process enjoys strong political backing; the SR project (known in the Slovak Republic under the name of "Value for Money" project) was included in the manifesto of the new government after the March 2016 elections; it was also included in the National Reform Program and in the Stability Program for 2016. The SR began in Fall 2015 with a set of pilot reviews that was reported in March 2016. Based on experience from three pilots, including schools, the first full reviews covering health, transport, and IT spending were launched in April 2016. The TORs for these three reviews were

attached to the Slovak Stability Program sent to the European Commission in April 2016. The TORs included clear financial objectives, including cost containment, providing the same services with less resources and improving allocative efficiency within a sector. In 2017, a second round with three reviews including education, labor and social policies, and environment was undertaken.

Slovakia has chosen to be fully transparent about the process and publishes the results of SRs and the TORs, interim and final reports, and implementation reports. The first set of SRs helped strengthen the understanding within the MOF of the various policy areas under review. The SRs have identified significant savings (up to 8 percent of the budget, on average), and these savings could be retained within the respective ministries. The initiative benefited strongly from political support at all levels; implementation was identified as a challenge, and an implementation unit was established within the Deputy Prime Minister's office.

## Annex 3. Outline for Concept Note

### 1. Overview:

*Objective of this document*

This Concept Note seeks to:

- Provide information on the SR program (including the need, objectives, and expected benefits).
- Outline the process for SRs, and how it aligns with the budget process.

### 2. Introduction:

*Statement on why SRs should be established and incorporated into the budget process.*

#### 2.1 Policy context

Current fiscal situation

#### 2.2 The need to perform SRs

To strengthen public service delivery and identify potential areas for savings or efficiency gains, meet medium-term fiscal consolidation objectives

### 3. Spending Review Framework:

#### 3.1 Organizational structure

Clearly outline role of each entity:

- President
- Strategic role for Ministers (Minister of Finance and line minister), for example, Steering committee
- SRU (coordinator and driver)
- Working Groups that include line ministries, chaired by DIPRES senior official

#### 3.2 Spending Review Approach

Rolling Line Ministry SRs:

- Medium-term SR program
- Annual approval mechanism
- Within 5-7 years, every line ministry should undertake an SR

Targeted SRs

Different types of SRs

- Sector SRs (across ministries)
- Selected programs
- Selected spending items (for example, wage bill)

#### Comprehensive SRs

- At most, once every four years
- Covering between 20-100 percent of expenditure

### **3.3 Conducting review process**

Step 1: Preparing Review Parameters

Step 2: Analysis of Spending and Develop Policy Options

Step 3: Decision Making

Step 4: Implementation

## **4. Integrating Spending Reviews into the Budget Process:**

### **4.1 Legislative basis**

Outline any required changes to the Public Finance Law to be pursued.

### **4.2 Outcomes of SR should be published**

Outcomes made available to public to support transparency of review process

### **4.3 Monitoring the implementation of approved measures**

DIPRES will monitor implementation of approved measures, and report to the President through the budget process.



## Annex 4. Template Terms of Reference for Spending Reviews

### Terms of Reference for Spending Review Working Group on [X] [date]

#### Purpose

The 20[xx] spending review process will examine expenditures in [X] to determine whether activities are being delivered effectively and efficiently and to identify potential savings measures to be incorporated in the 20[XX] budget and beyond. The goal is to help reach the medium-term fiscal objectives and to create fiscal space for new reforms and policy initiatives.

#### Scope

The scope of the spending review is [...]. The relevant cost base of the spending review is thus [x] billion pesos (X percent of GDP).

#### Terms of Reference

1. The review will examine how well existing expenditure in the Ministry of [X] supports the government's overall policy objectives.
2. The review will:
  - a. identify low-priority and ineffective spending that can be redirected to higher priorities or contribute toward fiscal consolidation
  - b. assess whether there is scope to improve the efficiency of expenditures or deliver activities at lower cost
  - c. assess whether there is scope to better target existing expenditures and improve incentives to achieve the policy objectives
  - d. assess the appropriateness of fees for beneficiaries of the existing expenditures or the potential to revise existing charges
  - e. identify whether there are opportunities to remove duplication across expenditures by consolidating programs.
- The review will identify a menu of potential savings measures for [ministry, sector, define objective] to be presented to the President for consideration. Where savings are identified, the Ministry of [X] will be permitted to utilize up to [X percent] of those savings by redirecting these to more effective and efficient spending to meet government priorities.
3. The following analysis and information will be provided to accompany policy proposals: the medium-term financial implications; a description of the policy proposal;

the policy rationale; the impact on affected groups; and the implementation and legislative requirements.

4. The review will also identify forthcoming spending developments under existing policy that are expected to impact the budget.

5. The SR report will include: an overview of spending trends and future spending development; detailed analysis of spending based on the criteria above; and specific policy proposals and a consolidated summary table of all spending pressures and policy proposals.

### Organization and timeframe

The review will be conducted by a working group. The working group will consist of [X] representatives from the Budget Directorate and [X] representatives from the Ministry of [X]. The working group will be chaired by a senior official in the Budget Directorate. In reviewing spending and developing proposals, the working group will also draw on external analysis and independent experts, as appropriate. The ministries will exchange and share relevant information within the working group necessary to meet the terms of reference.

Coordination of the review will be undertaken by the SRU in DIPRES.

The working group will refer to a steering committee consisting of the Minister of Finance, Budget Director and the Minister of [X]. The role of the steering committee is to provide strategic guidance and to approve the final spending review report.

The timeline for the spending review will be as follows:

- a. By [date], finalize analysis, indicators, and benchmarking that will be used to inform saving proposals.
- b. By [date], finalize policy options and identify those that can be implemented for the 20[XX] Budget and discussed in the policy hearings, and those that require further analysis.
- c. By [date], submit the preliminary report to DIPRES for technical review and subsequently for discussion and approval by the [Steering Committee].
- d. By [date], submit the final report to the Ministry of Finance for final technical review and subsequent submission to the President.

## Annex 5. Tools and Techniques to Undertake Spending Review Analysis

Analysis	Question to Ask in the Analysis	Possible Tools and Techniques
<b>Spending description:</b>		
Analysis of the scope of the program/activity	<ul style="list-style-type: none"> <li>• What is the program focus?</li> <li>• What is the public policy rationale for the spending activity?</li> <li>• What are the objectives and outputs of the spending activity?</li> </ul>	Program/activity description and strategic objectives: <ul style="list-style-type: none"> <li>• List of activities</li> <li>• Identification of intended beneficiaries</li> <li>• Details of rationale of the program/activity at the time it was introduced, and rationale for subsequent reforms</li> <li>• Indication of whether the program/activity is identified as strategic and/or a priority in strategic and planning documents (for example, in the Infrastructure Master Plan)</li> </ul>
<b>Spending Analysis:</b>		
Analysis of the inputs and outputs	<ul style="list-style-type: none"> <li>• What are the key deliverables from the activity/program?</li> <li>• What are the spending components?</li> <li>• What areas do absorb a large proportion of the budget?</li> <li>• How is spending distributed among different activities?</li> <li>• How much output is produced?</li> <li>• What is the cost of producing one unit of output?</li> </ul>	Key outputs: <ul style="list-style-type: none"> <li>• Description of outputs produced</li> <li>• Volumes and values by activity, objective, cost center, and production unit</li> </ul> Key inputs: <ul style="list-style-type: none"> <li>• Number of employees</li> <li>• Composition of employees</li> </ul> Decomposition of total expenditure: <ul style="list-style-type: none"> <li>• By economic category (for example, compensation of employees, purchases of goods and services, investment)</li> <li>• By government level (central, local, social security funds)</li> <li>• By activity</li> <li>• By objectives</li> <li>• By actions</li> <li>• By cost center</li> <li>• By production unit</li> <li>• Costs per unit of output, costs per employee, costs per beneficiary</li> </ul> Distributional impact of government spending:

		<ul style="list-style-type: none"> <li>Incidence analysis of spending (beneficiaries/recipients by income group, share of resources captured by income group, average value of benefits by income group)</li> </ul>
Expenditure trends	<ul style="list-style-type: none"> <li>Has spending been increasing or decreasing? Are there sudden stops or accelerations?</li> <li>Have all spending components been growing at the same pace?</li> <li>Are there expenditure areas of consistent underspending?</li> <li>Are there specific circumstances that can explain any significant distance between budgeted and actual expenditure (for example, external factors out of the control of program managers, such as natural disasters or legal rulings)?</li> </ul>	<p>Spending analysis:</p> <ul style="list-style-type: none"> <li>Growth rates of spending and spending components</li> <li>Comparison of budget to actual expenditure for all components</li> <li>Systematic differences between projections and outturn (both for inputs and outputs)</li> <li>Changes in context factors (technology development, price of inputs—for example, commodities traded on international markets, legal rulings, international commitments)</li> </ul>
Details of short- and medium-term cost drivers and pressures	<ul style="list-style-type: none"> <li>What areas have shown large growth in spending over time?</li> <li>Do aggregate dynamics reflect developments of one particular component?</li> <li>What are the reasons behind the increases?</li> <li>What are the projections going forward? How is demand expected to evolve?</li> </ul>	<p>Supply side:</p> <ul style="list-style-type: none"> <li>Calculation of contribution to aggregate growth of spending items</li> <li>Developments of quantitative indicators of volume of services provided (for example, number of applicants, number of beneficiaries, number of units supplied)</li> <li>Decomposition of monetary costs among quantities and prices (for example, changes in wage rates; costs for purchases of goods and services, changes in quantities purchased and unit costs)</li> </ul> <p>Demand side:</p> <ul style="list-style-type: none"> <li>Analyze long-term spending projections (for example, those prepared in the context of the Ageing Working Group)</li> <li>Impact of demographic changes;</li> <li>Changes in demand over time driven by other context factors (for example, by technological innovation or income growth)</li> <li>Emergence of new needs (for example, due to changes in labor supply patterns)</li> </ul>

<p>Benchmarking</p>	<ul style="list-style-type: none"> <li>• How does spending compare to international benchmarks?</li> <li>• How does it compare when internally benchmarked across the country?</li> </ul>	<ul style="list-style-type: none"> <li>• International benchmarking to identify areas of significant misalignment (for example, spending is higher/lower than benchmark by 5, 10 or 15 percent). Sample of comparator countries to be carefully selected (similar income level, regional proximity, similar institutional and social context)</li> <li>• Identify distance from best performers (countries that display lower cost, best outcomes, best costs/outcomes ratios)</li> </ul> <p>Intra-country benchmarking (comparing cost levels, cost composition, and physical inputs mix) among different municipalities, cost centers, production units. For example, compare average production costs for unit produced or per employee or per beneficiary; or compare work utilization patterns and staff skill composition.</p>
<b>Program evaluation:</b>		
<p>Assessment of appropriateness of spending</p>	<ul style="list-style-type: none"> <li>• Is the activity a government priority?</li> <li>• Does the need for which the activity was initially designed still exist?</li> </ul>	<ul style="list-style-type: none"> <li>• Relevant government statements on policy intent or strategic priorities</li> <li>• Data on demand for outputs over time</li> <li>• Identify context factors that may affect the appropriateness of the program (for example, new technologies or processes, new needs because of changes in social preferences and work patterns)</li> </ul>
<p>Assessment of efficiency of spending</p>	<ul style="list-style-type: none"> <li>• Are activities being delivered in a cost-effective way?</li> <li>• Can steps be taken to provide the same activity at lower cost?</li> <li>• Are there opportunities for higher user fees?</li> <li>• Is there overlap or duplication with other government programs?</li> </ul>	<ul style="list-style-type: none"> <li>• Comparison of average cost for unit of output across production units (ministries, municipalities) that deliver the same (or similar) program</li> <li>• Comparison of average cost to private producers that deliver a similar product or service</li> <li>• Examination of alternate technologies for producing the same output</li> </ul>

		<ul style="list-style-type: none"> <li>• Examination of use of staff work time and staff skill composition</li> <li>• Examination of level and dynamics of user charges or copayments as a portion of total cost</li> <li>• Examination of how user charges and copayments are distributed between income groups</li> <li>• Identification of activities and outputs of programs with similar objectives (including from other ministries or levels of government)</li> <li>• Step through the process of providing the activity to identify resources (human and physical) that are not fully utilized</li> </ul>
Assessment of effectiveness of spending	<ul style="list-style-type: none"> <li>• How is the activity currently targeted?</li> <li>• Does the activity meet the policy objectives?</li> <li>• Is the program well managed?</li> </ul>	<ul style="list-style-type: none"> <li>• Assessment of portion of spending that reaches intended beneficiaries (value of outputs to recipients compared to total expenditure)</li> <li>• Assessment of achievement of KPIs and desired impact</li> </ul>

## Annex 6. Template for the Spending Review Report

### A. Summary and Overview

#### I. Coverage of Spending Review

##### *I. a. Mandate and scope of the SR*

What ministry, organizational units, programs, and agencies are covered by this review? (for example, secondary vocational education, higher education, and other educational institutions)  
What areas of expenditure are the focus of this review? (for example, administrative costs, subsidies and transfers, personnel costs)

**Table 1. Areas of Expenditure**

Areas of expenditure	Description
[Administrative costs]	[Few notes on what is the focus of the review]
[Subsidies]	[Few notes on what is the focus of the review]
[Personnel costs]	[Few notes on what is the focus of the review]
[Fill in]	[Few notes on what is the focus of the review]

##### *I.b. Budget covered within the SR*

How much expenditure is covered by this review?

**Table 2. Public Expenditure by Area**

Review area	2018	2019	2020	2021
Total expenditure for Ministry/sector				
[Area of interest]				
[Area of interest]				
[Area of interest]				
<b>Total public expenditure covered by SR</b>				

##### *I.c. Background of the areas*

What background information is relevant to understand the key elements in the analysis?

- Recent trends in expenditure, the key cost drivers, and their expected impacts on future expenditure (for example, the analysis of education sector showed increase costs over time and/or different average costs per student)
- Public rationale for expenditure (for example, Is this service important? Is it linked to national and sectoral plans?)
- Describe the environmental context (for example, for education: show decline in number of students and excess capacity in the sector, number and organizational set up of related institutions)

- Financial relations and arrangement, such as formulas
- Recent reforms and their impacts on expenditure and quality of service
- Reform plans/proposals from government, international organizations, and other stakeholders

## II. Key Findings

### *II.a. Objectives of analysis*

What is the main objective, such as consolidation, reprioritization, improved value for money? Why was this objective chosen? (link to overall fiscal situation and to national planning)

### *II.b. Methodology*

What methodology did the review use to answer these questions?

- Joint work group between DIPRES and Ministry of [xxx]
- Benchmarking
- Used analysis already undertaken (for example, DIPRES/MSD ex-ante and ex-post evaluations, studies from international organizations, recommendations by Productivity Commission)
- Analysis of statistical data
- Qualitative review (for example, surveys, focus groups)

What data were used, and what data gaps were identified?

### *II.c. Findings*

What were the main findings of the analysis/evaluation of expenditure in each area of focus? (for example, large differences in costs per student across schools and the reasons for these differences)

## III. Overview of Recommendations

A. What reforms are recommended to meet the review's objectives in each area (as discussed in section II.a)?

B. How much would each reform save (net) over the next three years (Table 3)?

**Table 3. Estimations of Savings/Reallocations from Reform Proposals**

<b>Reform proposals</b>	<b>2020</b> <b>('000)</b>	<b>2021</b> <b>('000)</b>	<b>2022</b> <b>('000)</b>
[Proposal 1]			
[Proposal 2]			
[Proposal 3]			
[Proposal 4]			
<b>Total savings/reallocations (potential)</b>			



Each reform proposal (including an estimation of saving impact) is explained in detail in the 1-2 page memos in section B.

**Table 4. Milestones**

<b>Reform proposals</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>Comments</b>
1. [Reform proposal 1]				
2. [Reform proposal 2]				
3. [Reform proposal 3]				

How should we measure the success of the reform proposal in 2020—22?

**Table 5. Performance Targets**

<b>Reform proposals</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>Comments</b>
1. [Reform proposal 1]				
2. [Reform proposal 2]				
3. [Reform proposal 3]				

## **B. Annex: Detailed Assessment of the Reform Proposals**

### **Reform proposal 1: [Name]**

*Reform proposal:*

Short description of the reform proposal.

*Background*

Examples of relevant information about the policy proposal:

- Background of the current policy/structure/program (including current allocation).
- Why was the current policy/structure/program originally designed this way?
- What key findings from the analysis led to this specific proposal (more in-depth about the proposal than the key findings chapter in the main report: including benchmark results and best practice)

*Economic consequences*

What savings/reallocations can be realized with the proposal? What is driving the savings? What methodology was used to describe the savings?

Presentation of reform options (if relevant)

What costs are associated with the realization of these savings? What is driving the costs?

**Table 6. Savings from Reform Proposal (when one option)**

	2020 (‘000)	2021 (‘000)	2022 (‘000)
Change in program expenditure:			
Change in administrative expenditure:			
Change in personnel expenditure:			
<b>Total change in resourcing:</b>			
<b>Change in staffing levels (‘000)</b>			

**Table 7. Savings from Reform Proposal (when several options)**

Reform proposals	2020 (‘000)	2021 (‘000)	2022 (‘000)
<b>Option 1: xxx</b>			
Savings/reallocations			
Costs			
<b>Net saving from proposal</b>			
<b>Option 2: xxx</b>			
Savings/reallocations			
Costs			
<b>Net saving from proposal</b>			
<b>Option 3: xxx</b>			
Savings/reallocations			
Costs			
<b>Net saving/reallocations from proposal</b>			

*Impact and sensitivities*

What consequences will the reform proposal have for the citizens and recipients of services or subsidies (for example, fewer students will be eligible for the food program because it is more accurately targeted):

- Who will be affected by the policy change? How many will be impacted? Will there be different impacts on men and women?
- What is the financial impact/cost to those affected?
- What are the social/economic consequences?
- Are there any spillovers to other programs?

*Implementation*

- How much time is required for implementation?
- What legal, organization, or operational changes are required?
- Who is responsible for implementation (will other agencies outside of the Ministry need to be involved)?
- How will progress in implementing these reforms be measured? What are the respective milestones?
- Is further consultation/negotiation required within the government or with third parties? If so, detail the recommended process.

**Table 8. Milestones**

<b>Reform proposals</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>Comments</b>
1. [Reform proposal 1]				
2. [Reform proposal 2]				
3. [Reform proposal 3]				

How should we measure the success of the reform proposal in 2020—22?

**Table 9. Performance Targets**

<b>Reform proposals</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>Comments</b>
1. [Reform proposal 1]				
2. [Reform proposal 2]				
3. [Reform proposal 3]				

**Reform proposal 2: [Name]**

*Reform proposal:*

Short description of the reform proposal.

**C. Documentation**

Data, studies, reports and analyses used for the SR.