Establishing effective governance arrangements and preparing the Terms of Reference

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Guiding principles for effective cooperation between the MoF and LM

- Spending reviews are a **formal procedure** where **the Ministry of Finance and line ministries work together.**
- The MoF and LMs **jointly develop the Terms of Reference.**
- **Line ministries bring in sectoral expertise** and will be responsible for **implementing policy/savings options.**
- There should be **joint ownership of SR results** from the MoF and LMs
- The Ministry of Finance coordinates the spending review process and provides methodological guidance.
- The MoF is responsible for **monitoring the implementation** of SR recommendations.

Roles of different types of stakeholders

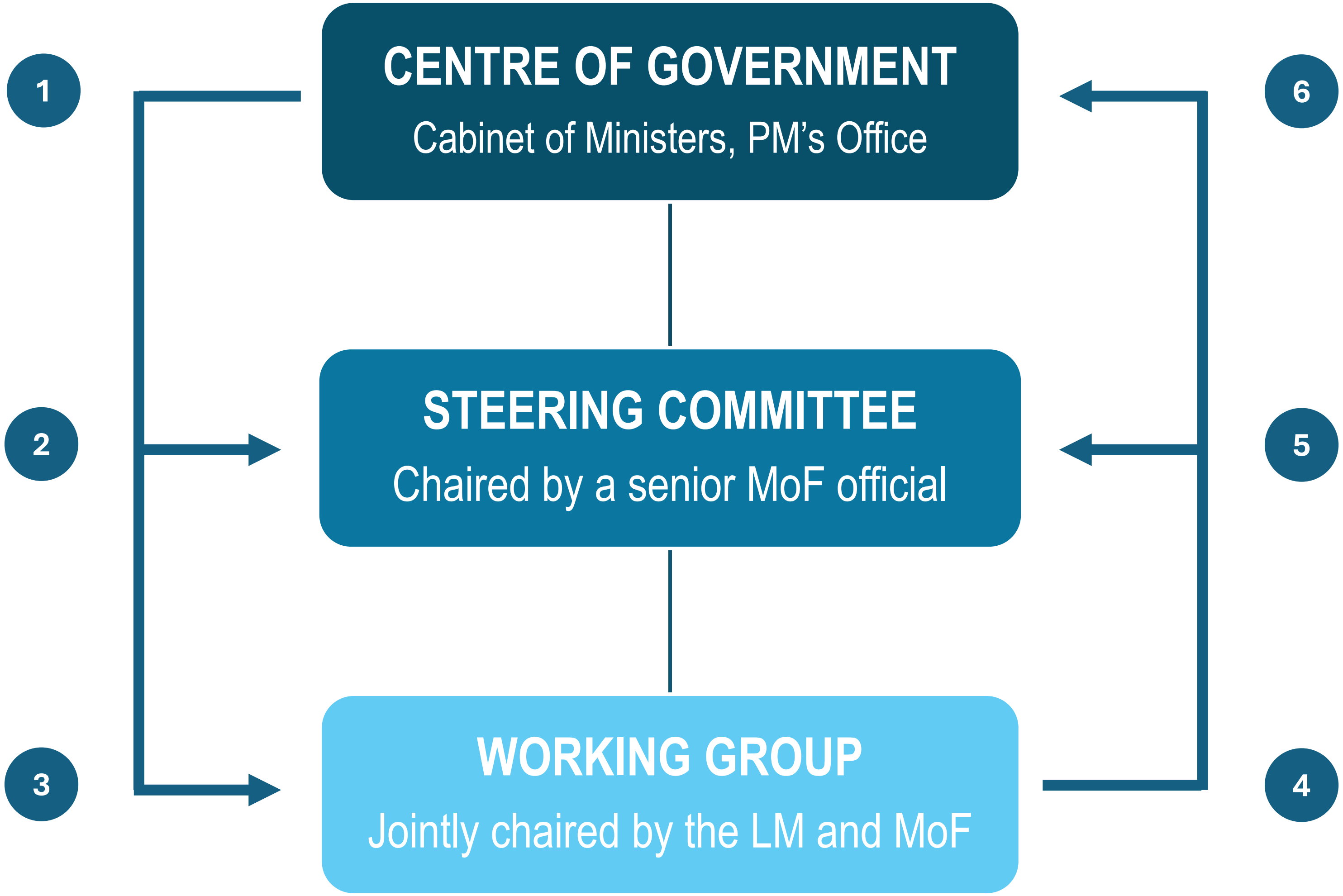
Political leaders	Public servants
• Aligning the SR process with the strategic objectives of the government through the topics for review • Approving terms of reference • Adopt SR recommendations • Ensuring the SR decisions feed into the budget process • Committing resources to conducting and implementing the results of a spending review	• Coordinate the spending review process in the steering group • Conduct the analysis and prepare the policy options in the working group • Provide analytical capacity and relevant expertise • Prepare the terms of reference and guidance materials • Prepare the draft and final spending review reports

Common governance structure of a spending review

1. Centre of Government agrees on the terms of reference (incl. objectives, scope, target, participants…)

2. The steering committee assigns working group participants, provides guidance and monitors progress

3. The working group conducts the analysis, meeting regularly

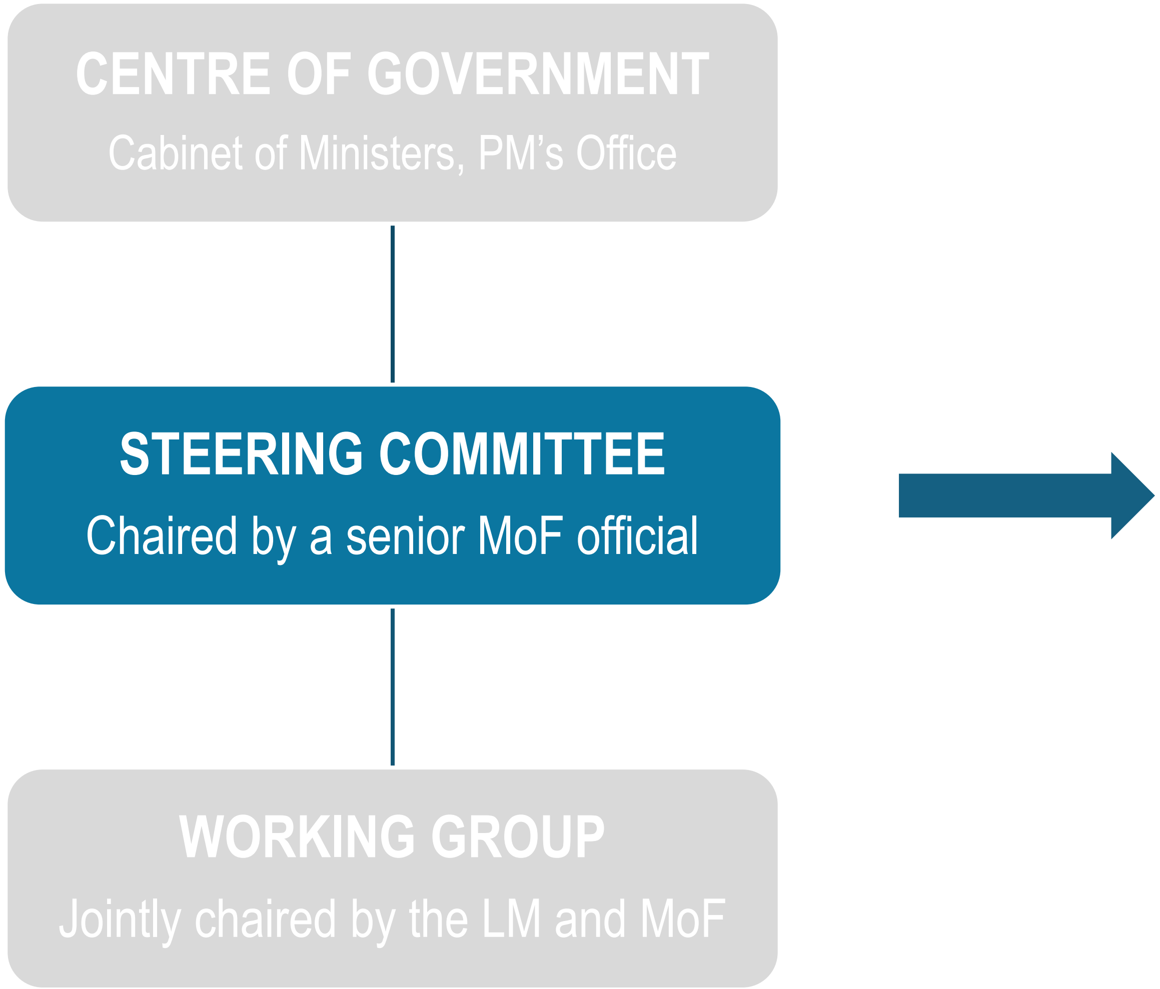


4. The working group prepares the spending review report with policy/savings options

5. The steering committee reviews and approves the spending review report

6. The Centre of Government adopts recommendation from the report, which will be included in the next budget.

Composition of the steering committee



The SC can serve as a filter between the political and analytical levels.

The steering committee is:

- Chaired by a senior MoF official (e.g. budget director)
- It includes senior officials from the MoF
- It includes senior officials from participating line ministries

The steering committee meets regularly throughout the review process

In Ukraine, the functions of the steering committee are covered by the working group.

Composition of the working group

CENTRE OF GOVERNMENT
Cabinet of Ministers, PM's Office

STEERING COMMITTEE
Chaired by a senior MoF official

WORKING GROUP
Jointly chaired by the LM and MoF

Conducts the analysis and prepares the policy/savings options

The working group is composed of (usually around 5-15 members):

- Staff from the MoF
- Staff from the participating line ministry (in-depth knowledge, access to stakeholders and implementation)
- External experts (optional)

WG meets regularly (at least once a month)

Common rules in Working Groups

- Non-political, analytical group
- No change scenario
- No-veto principle, all options put forward can be part of the final report

The role of other stakeholders in the SR process

- **External consultants and academia can be involved to:**
  - Bridge capacity gaps (especially in the early development stages)
  - Promote learning and the building of in-house capacities
- **State Audit Offices and policy evaluators:**
  - Can provide relevant data and skills
  - Promote the transparency of the SR process
  - Support the credibility of the findings

Summary of responsibilities of different stakeholders in the SR process

	MoF	Line ministries	Centre of Government	Others?
Responsibilities	• coordinates the SR process. • jointly conducts the analysis with relevant line ministries in the working group • provides methodological guidance and ensures technical quality • ensures the link with the budget	• provides sectoral expertise and evidence • plays an important analytical role within the working group • Is responsible for implementing the results. • jointly develops policy and savings options with the MoF in the working group	• approves the Terms of Reference • approves the final spending review report • adopts recommendations from the spending review	• State Audit Office • Policy evaluators • External consultants • Academia, NGOs…

Preparing the Terms of Reference

Developing Terms of Reference

Objective

The 20XX spending review process will analyse expenditures within the area of …. to analyse how well expenditure within the area is aligned with the government´s policy objectives, if they are delivered effectively and efficiently and to identify potential savings measures to be taking into consideration in the 20XX budget, and onwards, to assist the government in meeting its medium-term fiscal targets.

Scope

The total expenditure within the area of …. is X million Euros. The task of the working group is to identify at least X% of the total expenditure to be reallocated within another area of the same ministry.

Tasks

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

The review will identify a menu of potential options within the area of … that will be presented to the Cabinet to consider. The options will assist the Government's medium-term fiscal consolidation tasks. The Ministry of … will be allowed to use up to X% of the identified savings to reallocate within other areas to meet the government priorities

Organisation

The review will be conducted by a working group consisting of X representatives from the Ministry of Finance and X representatives from the Ministry of X, as well as external and independent experts. The working group will be chaired by a senior official in the Ministry of X. The working group is supervised by a steering committee that reviews an intermediate report and approves the final report of the working group. The review process is coordinated by the spending review team in the State Budget Department.

Timeline

I. By xx, finalise *Task X*
II. By xx, submit a preliminary report to the Steering Committee.
III. By xx, submit the final report to the Steering Committee.

	Terms of Reference
I.	Objective
II.	Scope
III.	Tasks
IV.	Organisation
V.	Timeline

Template for Terms of Reference: objective

I.	**Objective**
II.	**Scope**
III.	**Tasks**
IV.	**Organisation**
V.	**Timeline**

It is important to include a **clear savings target** to help focus the spending review process into actionable budgetary outcomes

This spending review will analyse expenditures within the area of [insert area] to:

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

Template for Terms of Reference: objective (example of targets)

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

Template for Terms of Reference: scope

I.	Objective
II.	**Scope**
III.	Tasks
IV.	Organisation
V.	Timeline

The scope of the spending review is [programme name].

The total expenditure in this area is [X] million UAH, representing [X]% of the government's/ministry's budget in [last budget year].

	2019	2020	2021	2022	2023
Infrastructure fund excl. network costs	4,102	3,464	3,535	3,100	3,843
Road security (Ch. 12, art. 14)	50	41	37	36	35
Public transport and rail infrastructure (Ch. 12 art. 16)	13	14	14	14	14
Shipping and harbors (Ch. 12 art. 18)	39	35	5	5	5

Template for Terms of Reference: tasks

I.	Objective
II.	Scope
III.	Tasks
IV.	Organisation
V.	Timeline

Examples of tasks:

I. To examine recent spending trends and potential spending pressures within the area
   - I. How will these trends affect the annual and medium-term budget without policy changes?

II. To examine whether there is scope to improve the efficiency of expenditure.
   - I. Can services or activities be delivered at a lower cost?

III. To examine if there is low-priority spending within the area that can be reallocated to high-priority areas

IV. To examine the overall performance of the programme by looking at available evidence (existing performance information, evaluations, audits…)

V. To examine whether there is scope to improve the efficiency of the area through its design or administrative arrangement or remove duplications.

Template for Terms of Reference: organisation

I.	Objective
II.	Scope
III.	Tasks
IV.	Organisation
V.	Timeline

The review will be conducted by a working group consisting of [X] representatives from the Ministry of Finance and [X] representatives from the Ministry of Agriculture/Economy.

The working group will be chaired by a senior official in the [Ministry of X]. The working group is supervised by a Steering committee that approves the final report of the working group. The review process is coordinated by the [insert team name] in the Ministry of Finance.

Members of the working group: [identify positions and departments/units]

Members of the steering committee: [identify positions and departments/units]

Template for Terms of Reference: timeline

I.	Objective
II.	Scope
III.	Tasks
IV.	Organisation
V.	Timeline

I. By [insert date], finalise the analysis, indicators, and benchmarking that will be used to inform saving proposals.

II. By [insert date], finalise policy options and identify those that can be implemented for the [20XX] budget and those that require further analysis.

III. By [insert date], submit the preliminary report to the steering committee.

IV. By [insert date], submit the final report to the cabinet.