



# **TECHNICAL ASSISTANCE REPORT**

## **SLOVAK REPUBLIC**

Next Phase of Spending Reviews

**NOVEMBER 2024**

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**This technical assistance (TA) was provided with financial support from the European Union.**

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# Abbreviations and Acronyms

BPS	Budget Policy Section
FAD	Fiscal Affairs Department
HSR	Healthcare spending review
IFP	Institute for Financial Policy
IMF	International Monetary Fund
MFSR	Ministry of Finance of the Slovak Republic
PEL	Public Expenditure Limits
SRP	Spending Review Project
VfM	Value for Money
KPI	Key Performance Indicator

# Preface

A capacity building mission from the Fiscal Affairs Department (FAD) of the International Monetary Fund (IMF) visited Bratislava, the Slovak Republic during the period May 16 – 24, 2024 to provide support to the Ministry of Finance's (MFSR) Value for Money (VfM) Division in its ongoing review of the Slovak Republic's spending review process. The IMF team was led by Torben Hansen (FAD) and further comprised Geert Beekhuis and Dave Coady (FAD experts).

In the Ministry of Finance, the mission met with Mr. Radovan Majerský, State Secretary; Mr. Martin Haluš, Director General of the VfM Division; Mr. Alexander Cirák, Director General of the Budget Policy Section; Mr. Juraj Valachy, Director General of the Institute for Financial Policy; Mr. Peter Mandžák, Director in the VfM Division; Mr. Ján Mikulík, Director in the Budget Policy Section; Mr. Juraj Šuchta, Director in the Institute of Financial Policy; and their staff.

The mission also met with Mr. Peter Goliáš, Director General of the Institute for Strategies and Analysis, Deputy Prime Minister's Office; Mr. Matej Mišík, Director General of the Institute of Health Analysis, Ministry of Health; Mr. Marcel Čas, Director General of the Institute of Cultural Policy, Ministry of Culture; Mr. Marek Engel, Director General of the Institute of Environmental Policy, Ministry of Environment; Mrs. Zuzana Baranovičová, Director General of the Institute of Educational Policy, Ministry of Education; Mr. Daniel Kolesár, Director of the Implementation Unit, Deputy Prime Minister's Office; Mr. Pavol Majher, Head of Department, Council for Budget Responsibility; Mrs. Jana Juriová, Head of Strategy and Analysis Department, Supreme Audit Institution; Mr. Ján Pokrivčák, Slovak University of Agriculture, formerly Institute of Agricultural Policy, Ministry of Agriculture; and staff from these ministries and entities.

The IMF team is grateful for the courtesy extended by all these officials and for the frank discussions during the visit. Special thanks are due to Lenka Martišková and Mária Mihoková from the VfM Division for their excellent support before and during the mission and for diligently managing the schedule of meetings. Thanks, are also due to Mr. Marián Bederka from the VfM Division for providing excellent data support to the mission.

# Executive Summary

The Value for Money (VfM) Division in the Ministry of Finance (MFSR) has initiated a review of the Slovak Spending Review Project (SRP). After eight years, the project has evolved, and important lessons have been learned. Overall, the SRP has made significant progress in a relatively short period of time—since its inception in 2016, a total of 19 spending reviews have been completed covering 64 percent of total public spending, equivalent to over EUR 37 billion or 31 percent of GDP. The spending reviews to date have identified potential savings of EUR 3.3 billion, equivalent to 7 percent of the total spending covered by the reviews.<sup>1</sup> The capacity to undertake spending reviews has been greatly enhanced over time, with a significant increase in the number of staff involved in the spending reviews and strengthening of the analytical capacity and ability to prepare high-quality spending review reports.

Despite this progress, the SRP has also encountered challenges and faces some important choices going forward. An overarching issue has been a lack of integration of the spending review process with the budget cycle. This is reflected in a relatively low implementation rate for measures aiming at generating savings to the budget whereas the implementation rate for so-called governance measures, which do not have a direct budgetary impact, has been much higher.

The authorities aim to enhance the budgetary impact of the SRP. Notably, in the context of the Slovak Republic's fiscal challenges, consolidation measures will need to be identified in the coming years, and spending reviews are anticipated to play a major role in identifying these. However, achieving this will require a range of interrelated reforms to the SRP to strengthen the formal interaction with the budget process and to strengthen the way spending reviews are designed and carried out.

The integration of spending reviews with the budget process would benefit from institutionalizing intersections with the budget process at key decision points during the budget cycle. This could encompass three set of intersections: (i) an early internal discussion in the MFSR on options and directions for spending reviews in the upcoming budget cycle; (ii) incorporating spending review proposals in a Fiscal Strategy Paper for discussion in the Council of Ministers in April as a complement to the Stability Programme<sup>2</sup>; and (iii) incorporating measures from spending reviews in the Council of Ministers' discussion and approval of the budget proposal in September.

The SRP would also benefit from moving towards more targeted spending reviews with a narrower focus building on existing broader spending reviews. This would facilitate deeper analysis of spending components and fuller development of potential measures, and thus potentially more impactful spending reviews from a budget perspective.

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<sup>1</sup> A recent comprehensive spending review evaluated the overall structure and impact of sectoral spending in Slovakia against comparator countries and identified spending adequacy and efficiency gaps. This reform can help inform spending allocations going forward.

<sup>2</sup> Beginning next year, the existing Stability Program will be replaced by a new multiyear Fiscal Structural Plan, which is expected to be presented in September. Although the exact format has not yet been established, the plan will be covering a period of 4-5 years.

Governance arrangements for the spending reviews should be strengthened in several ways:

- Creation of a coordination group/steering committee in the MFSR to facilitate internal collaboration and decision making on the scope and topics of reviews;
- More detailed terms of reference for spending reviews, which should be approved by the Council of Ministers;
- Inclusion of specific savings targets in the terms of reference; and
- Creation of a formal cross-departmental working group for each spending review, complemented by a Steering Committee for large or high-profile spending reviews.

Finally, a move towards more targeted spending would facilitate the development of fewer but more impactful savings measures. In doing so, spending review teams should apply a broad set of criteria to elaborate measures in a comprehensive way. Impact analysis is particularly important as this will determine the feasibility of the measure, both technically and politically, and the need for mitigating measures. More targeted spending reviews could consider alternative options for each measure. This would reinforce the current nature of the spending reviews as a technical elaboration of options, while assessment of trade-offs would be left for the decision makers. In addition to providing solid technical analysis, the spending reviews should also consider presentation and communication of the measures.

The table below presents the mission's ten recommendations.

# Recommendations

Recommendation		Responsible	Timeline
1	<b>Institutionalize spending reviews in the budget cycle</b> through incorporating discussions on reviews and measures at key decision points during the budget process.	MFSR	Beginning in December 2024 (2026 budget cycle)
2	The MFSR should <b>adopt a more targeted approach to spending reviews</b> going forward and orient spending reviews more towards potential for savings or addressing spending pressures.	MFSR	Piloting approach in 2025 for 2026 budget cycle
3	A <b>coordination group/steering committee in the MFSR</b> , such as the already existing committee responsible for monitoring the budget, should facilitate internal collaboration and decision making on the scope and topics of reviews.	MFSR	December 2024
4	<b>Terms of reference</b> for spending reviews should be more detailed, approved by the Council of Ministers to strengthen the mandate for the reviews, and published. The MFSR should <b>include specific savings targets</b> in the terms of reference.	MFSR	Piloting approach in 2025 for 2026 budget cycle
5	A <b>formal working group should be created for each spending review</b> , responsible for executing the terms of reference and comprised of staff (possibly at Director level) of the VfM Department, BPS, and Analytical Units and Budget Units in line ministries, as well as other members as relevant. Working groups could be guided by standard 'rules of the game'.	VfM	Piloting approach in 2025 for 2026 budget cycle
6	For large or high-profile spending reviews, <b>establish a high-level Steering Committee</b> at Director General level to provide strategic guidance and direction.	VfM	Piloting approach in 2025 for 2026 budget cycle
7	Reflecting the move towards more targeted spending reviews, <b>drop the practice of publishing an interim report</b> presenting the analytical results for each review.	VfM	Medium-term
8	Spending reviews should <b>provide comprehensive analysis of potential measures, applying a broad set of criteria</b> . Different options for measures should be presented where relevant. The review teams should consider presentation and communication of the measures as an integral part of the review.	Review teams	Piloting approach in 2025 for 2026 budget cycle
9	Spending reviews should be <b>presented and published as technical reports</b> in line with current practice, with a separate decision on identified measures.	VfM	Early 2026
10	The MFSR should consider potential benefits of incorporating <b>more comprehensive legal provisions for spending reviews</b> in the organic budget law following a trial period.	MFSR	Medium term



# I. Introduction

**1. The Slovak Republic introduced spending reviews in 2016 as part of a broader value for money initiative.** The Spending Review Project (SRP) was anchored in the twin objectives of enhancing value for money and spending efficiency. It was also expected that the SRP would provide an instrument to support the achievement of the government's fiscal sustainability objectives as expressed in the government's target to return general government finances to balance by 2020. The chosen form for the SRP was a series of rolling sectoral or thematic spending reviews, where each iteration would incorporate the lessons from previous waves.

**2. The SRP matured in the subsequent years with support from the European Commission and the IMF.** A Value for Money (VfM) Division was established in the Ministry of Finance (MFSR) with spending reviews as one of its core tasks. A designated unit (now Department) in the VfM Division has taken the lead on analysis and evaluation of spending, in collaboration with counterparts in the line ministries selected for review. From 2016, new analytical units were established in some line ministries and strengthened in others where they already existed, with a primary mandate to scrutinize the value for money and efficiency of spending in their respective ministries. An Implementation Unit was also created in the Deputy Prime Minister's Office to spearhead the drive to identify implementable measures, generate political support for the reviews, and keep the momentum in implementation. FAD has supported the authorities in developing the institutional framework and in conducting sector-specific spending reviews through four phases of a technical support initiative supported by the European Commission.

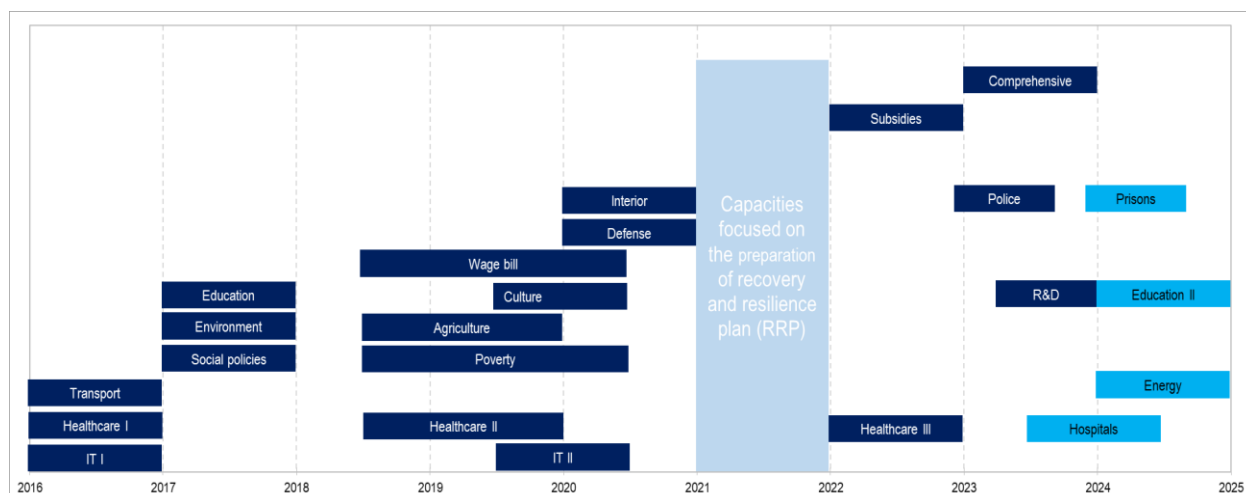
**3. The VfM Division has initiated a review of the SRP, notably to identify options to strengthen the incorporation of savings and efficiency measures in the state budget.** After eight years, the project has evolved, and important lessons have been learned. Notably, while the institutional framework, capacity to conduct spending reviews, and the quality of analysis have all developed significantly over time, it remains a challenge to incorporate the outcomes of the spending reviews in the annual budget cycle. This challenge is becoming critical as the Slovak Republic's fiscal balances have deteriorated in the aftermath of the fiscal stimulus introduced first during the pandemic and later through measures to offset the impact of higher energy prices. According to the most recent IMF Staff Report, the fiscal deficit is estimated to have widened from 1.7 percent of GDP in 2022 to 4.9 percent of GDP in 2023. The Staff Report highlighted the need to prioritize fiscal sustainability and for a sustained commitment to fiscal consolidation building on the consolidation measures adopted in the 2024 budget. The government has indicated its intension to gradually reduce the deficit to 3 percent of GDP by 2027, including a reduction in the fiscal deficit by 1 percentage point per year starting in 2025.

**4. In this context, the mission provided support to the authorities on further strengthening the spending review process.** Chapter II provides an overview of progress to date. Drawing on this, Chapter III discusses options for potential improvements to the SRP with the overall aim of strengthening its integration with the budget process.

## II. Progress to Date

5. Overall, the SRP has made significant progress in a relatively short period of time. Since its inception in 2016, a total of 19 spending reviews have been completed, covering both broad sectoral spending areas and cross-cutting thematic areas (Figure 2.1).<sup>3</sup> These reviews have covered 64 percent of total public spending, equivalent to over EUR 37 billion or 31 percent of GDP. Four more reviews are currently ongoing. Reflecting the growing significance of the SRP, the organic budget law was amended in 2019 to institutionalize a 4-year cycle of rolling spending reviews, requiring future governments to cover at least half of total public spending over the four-year government term.

Figure 2.1. Evolution and Focus of Spending Reviews, 2016-25



Source. VfM Division, MFSR.

Note. Dark light blue denotes ongoing reviews.

6. More recent spending reviews have drawn on the earlier broad sectoral reviews to evaluate narrower spending areas. For example, drawing on the 2016 Healthcare Spending Review (HSR) and subsequent updates (Box 2.1), there is now an ongoing review of hospital spending. Similarly, as a follow-up to the broad 2017 Education Spending Review, there is an ongoing review focusing more narrowly on primary and secondary spending. The 2023 Police Spending Review and the ongoing Prisons Spending Review both draw on analysis from the 2020 Interior Spending Review.

<sup>3</sup> In the first wave, it took around one year to complete a review. In the second wave, this was extended to a year and a half to help produce more timely measures better aligned with the budget process. The latest round of spending reviews is again prepared over a shorter period of approximately a year reflecting a narrower focus, such as updating of earlier reviews (healthcare) or a more targeted scope (police spending, prisons, hospitals, energy).

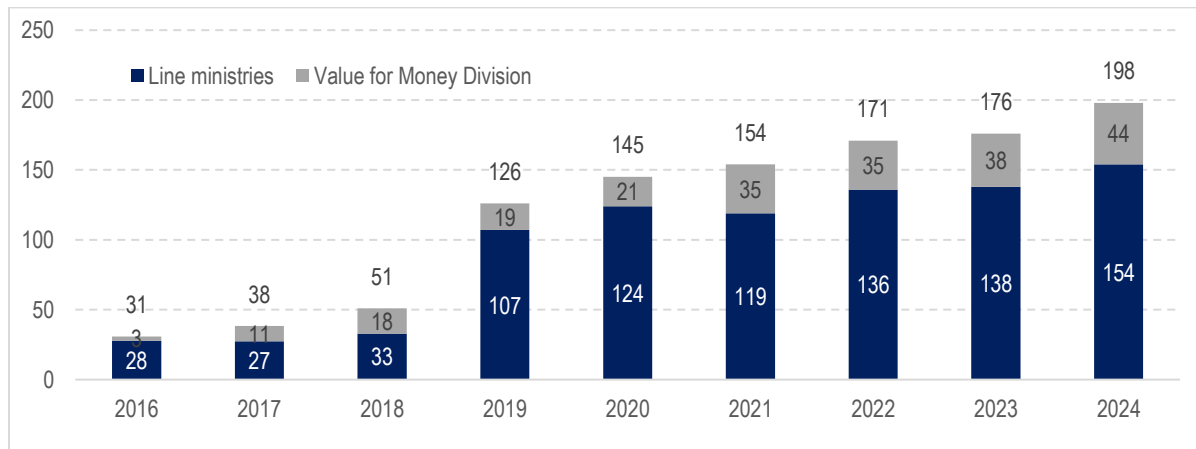
### Box 2.1. Evolution of the Healthcare Spending Review (HSR)

Despite a sustained increase in healthcare spending as a share of GDP over the last decade, which brought spending in the Slovak Republic above the average for comparator countries, health outcomes have continued to lag regional comparators. By 2022, public healthcare spending in the Slovak Republic accounted for around 6 percent of GDP and 13 percent of total public expenditures. In this context, the 2016 HSR focused on identifying areas for enhancing the efficiency of healthcare spending. The review provided the evidence-base required to identify specific areas where further analysis could be carried out to identify measures to reduce spending pressures. External stakeholders viewed the report as a key contribution to promoting confidence in the effective management of public health spending.

While the 2016 HSR provided a strong analytical basis for deepening understanding of healthcare spending pressures and inefficiencies, it focused mostly on so-called “value for money” and “governance” measures. Savings measures were often derived from broad benchmarking analysis and insufficiently developed to facilitate implementation. The subsequent 2019 HSR, and its 2022 HSR Update, further refined some of the broad spending measures identified in the earlier report and expanded the pool of potential savings measures. Several measures were incorporated into the healthcare budget and contributed to realized savings, which increased from EUR 106 million in 2016 to EUR 128 million in 2019. Additional savings are expected from savings measures refined in the 2022 HSR Update.

- 7. The capacity to undertake spending reviews has been greatly enhanced over time.** The number of staff in the VfM Department and the line ministry Analytical Units<sup>4</sup> increased from 31 in 2016 to 198 by 2024 (Figure 2.2). In the VfM Department alone, the initial three staff in 2016 have expanded to 44 in 2024. As a result, the analytical capacity in both the MFSR and line ministries has increased significantly and resulted in the preparation of high-quality and analytically rich spending review reports.

**Figure 2.2. Strengthening of Analytical Units in Line Ministries and VfM Division (analysts, FTEs)**

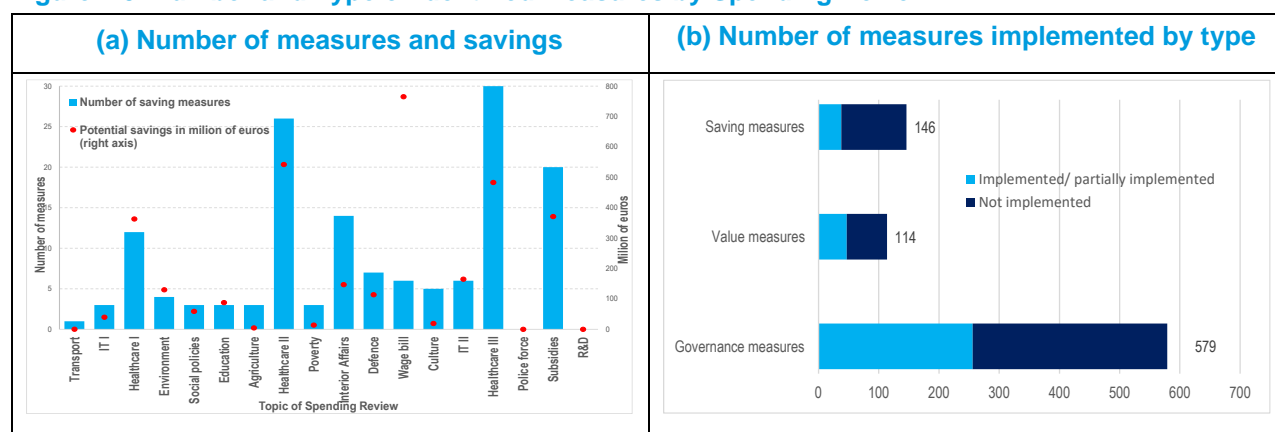


Source: VfM Division, MFSR; status February 2024.

<sup>4</sup> In this report the term ‘Analytical Unit’ is used for the various entities and units in line ministries that have been established since 2016 and are involved in spending reviews.

**8. While the spending reviews to date have identified a significant number of measures, the implementation of these measures has been uneven across sectors and types of measures.** The spending reviews have identified a total of 839 measures (Figures 2.3a). Most of the measures (83 percent) focus on so-called “governance measures” (related to procedural adjustments, management reorganization, and data collection efforts) and “value measures” (aimed at enhancing the value of existing spending), which enhance the quality of spending as opposed to generating savings. Overall, 41 percent of measures have been implemented (Figure 2.3b) reflecting the overall success of the SRP, notably in terms of qualitative benefits which are more difficult to measure. Nonetheless, the implementation rate of “savings measures” is significantly below the implementation rate for “governance measures.” While a total of EUR 3.3 billion in potential savings has been identified, the relatively low overall implementation rate of savings measures reflects that in many cases these measures were not sufficiently developed to generate broader consensus on their merits nor to facilitate their incorporation into the budget.

**Figure 2.3. Number and Type of Identified Measures by Spending Review**



Source: VfM Division, MFSR

**9. Feedback from stakeholders highlights several positive lessons from the SRP to date.** Notably, the comprehensive nature of the initial reviews has facilitated a much richer understanding of the spending composition, trends, and pressures across different functional and economic spending classifications. The combination of stronger analytical capacity and better understanding of spending areas has provided a comprehensive basis for continued strengthening of the spending reviews and identification of evidence-based measures. The collaboration between the VfM Division and Analytical Units in line ministries in conducting the reviews has been very good.

**10. The framework for the spending reviews has also evolved over time.** Lessons learnt from the earlier reviews were used to improve the approaches and methodologies adopted in later reviews. A “methodology guideline” has been drafted by the VfM Division, which although not yet published is used internally by the VfM Division. The spending review process is transparent, with terms of reference, reports, implementation plans, and implementation updates generally all being published on the MFSR website.

**11. Despite this progress, the SRP has also encountered challenges and faces some important choices going forward.** An overarching issue—as frequently noted in feedback from stakeholders—has been a lack of integration of the spending review process with the budget cycle. That is, the outcomes of the spending reviews do not appear to have been utilized as anticipated in the budget process, which is also reflected in the relatively low implementation rate for “savings measures” (Figure 2.3. b above). There

are likely several reasons for this, including (i) a lack of systematic and formalized interaction, and intersection between, the two processes; and (ii) savings measures not being detailed enough to facilitate decision-making and implementation. Other challenges and issues relate to the focus and scope of spending reviews going forward, and terms of reference and collaboration supporting the execution of the reviews. The next chapter discusses these challenges and options for improvement in more detail.

### III. Challenges and Options for Improvement

**12. The authorities aim to enhance the budgetary impact of the SRP.** In the context of the Slovak Republic's current fiscal challenges, consolidation measures will need to be identified in the coming years, and spending reviews are anticipated to play a major role in this task.<sup>5</sup> This will require an effort to better focus spending reviews on identifying, developing, and implementing potential savings measures in addition to the objectives of achieving better value for money and efficiency in public spending.

**13. Realizing this objective will require a range of interrelated changes to the SRP.** A key challenge is to strengthen the formal intersection between the budget and spending review processes to facilitate their integration. However, broader changes to the way spending reviews are designed and carried out will also be needed to elevate their relevance for the budgetary process and strengthen the implementability of potential measures. Thus, the options for improvement discussed below are all aimed at strengthening the integration of spending reviews with the budget cycle.

**14. Previous FAD recommendations to strengthen the budget process remain valid.** An FAD mission in June 2023 provided support on implementing multi-annual public expenditure limits (PEL), which is a new requirement under the Slovak Republic's rule-based fiscal framework.<sup>6</sup> Implementing the recommendations focused on strengthening the medium-term orientation of the budget process, which ultimately help to strengthen fiscal discipline and fiscal sustainability, would facilitate the integration of spending reviews in the budget process. Some recommendations are of direct relevance for the SRP-(Box. 3.1).

#### Box 3.1. Selected Recommendations of the June 2023 IMF FAD Mission

- The mission provided recommendations on the implementation of the Public Expenditure Limit (PEL). Notwithstanding a recent parliamentary approval of a change to the national PEL methodology, the following recommendations are still important and would also facilitate the integration of spending reviews in the budget process, including:
- Prepare an annual Fiscal Strategy Report (FSR) for presentation to the Council of Ministers as a complement to the Stability Programme (SP), and use the report as a vehicle for taking decisions on key fiscal issues required to prepare the budget for 2025;
- Require that the discussion of the FSR by the Council of Ministers conclude with an agreement on the various tax and spending consolidation efforts needed under the following headings: (i) across-the-board policies (e.g., decisions on public employment); (ii) sector-specific policies; and (iii) new measures arising from spending reviews; and
- Prepare (...) baseline estimates for all budget chapters.
- Efforts to move beyond the annual budget towards a more strategic medium-term approach to budgeting would support the take-up of spending review measures.

Source: IMF, available through: <https://www.imf.org/en/Publications/CR/Issues/2023/11/03/Slovak-Republic-Technical-Assistance-Report-Implementing-Public-Expenditure-Limits-541102>;

<sup>5</sup> Consolidation efforts in 2024 were tilted towards measures on the revenue side of the budget, with only a few consolidation measures originating from the spending reviews.

<sup>6</sup> Rahim, Allen, Beekhuis, and Pyne: *Implementing Public Expenditure Limits*, FAD TA Report, September 2023.

## A. Intersection with Budgetary Decision-Making

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**15. The budgetary process in the Slovak Republic is well-established but lacks a strategic phase during which spending reviews could be discussed.** Following preparation of the Stability Programme in April, the budget process kicks off in May with the Budget Policy Section (BPS) providing three-year envelopes for the different budget chapters. These are typically based on last year's budget with some amendments, for example to reflect past budget execution. Budget negotiations between BPS and line ministries ensue, leading to an agreement on the overall budget in the Council of Ministers in October. The budget proposal is submitted to Parliament in October. The budget process does not include a formal strategic phase at the outset of the budget process, during which the Council of Ministers (or a subgroup of ministers) would discuss the fiscal projections, fiscal space, spending pressures and priorities, and the parameters for spending reallocation and fiscal consolidation.

**16. Spending reviews seem to have played a somewhat limited role in the annual budget preparation process.** In the absence of a strategic budget discussion, measures from spending reviews could be discussed as part of the regular budget discussions between the BPS and line ministry budget units. However, several factors contributed to limit these discussions: (i) savings measures from spending reviews were often not developed in sufficient detail to allow them to be used directly in the budget process (the detailed specification of the measures was intended to be outlined in the implementation plans prepared by the implementation unit—see further discussion of this in Section 3.E below); (ii) the BPS and line ministry budget units were not closely involved in developing the measures; and (iii) measures that would lead to savings only in the outer budget years would be less helpful to close budget gaps for the coming year. Moreover, evolving spending developments could have reduced the relevance of some measures, and the practice of adjusting budget envelopes based on past budget execution could dilute the incentive for line ministries to effectively implement savings measures.

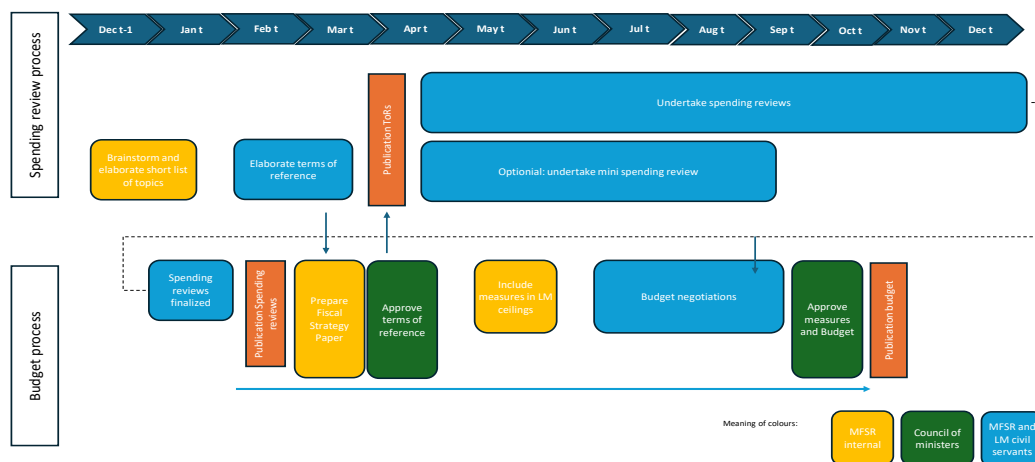
**17. The relevance of spending reviews would benefit from institutionalizing intersection with the budget process at key decision points during the budget cycle (see Annex 1 for elaboration).** This could encompass three set of intersections:

- An early internal discussion in the MFSR on options and directions for spending reviews in the upcoming budget cycle. To incorporate sufficiently diverse perspectives in a timely manner, this discussion could take place in December or January and involve the VfM Division, the BPS, and the Institute for Financial Policy (IFP).
- Incorporation of spending reviews in the proposed FSP for discussion in the Council of Ministers in April as a complement to the Stability Programme. Inclusion of spending reviews in the FSP would facilitate:
  - Decision on measures emanating from spending reviews that have been finalized in time for the discussion—these should be reflected in the spending envelopes for the different budget chapters, which the BSP provides in May; and
  - Decision on initiation of new spending reviews, either for finalization in January in time for next year's budget cycle or for finalization at the end of August or beginning of September in time for consideration in the context of this year's budget cycle (next year's budget)—the latter option could encompass small, highly focused spending reviews. The decision should include approval of terms of reference for the reviews.

- Incorporation of spending measures from the smaller, highly focused spending reviews in the Council of Ministers’ discussion and approval of the budget proposal in September.

Figure 3.1. provides a schematic overview of this cycle while Annex 1 provides a more detailed step-by-step description of the process.

**Figure 3.1. Alignment of the Spending Review Process with Budgetary Decision-Making**



**18. The institutionalization of spending reviews could benefit from a legal foundation.** Currently, the only date embedded in legislation related to spending reviews is October 15, which is the deadline for submitting the budget proposal to the Parliament, including an “assessment of the spending review”. The organic budget law could be amended to include key timelines, outlined in Figure 3.1 above, to help reinforce the commitment to better alignment of the spending review process with the budget process. However, the revised spending review process should be tested before consideration of potential legal changes (see Paragraph 42 below).

**Recommendation 1.** Institutionalize spending reviews in the budget cycle through incorporating discussions on reviews and measures at key decision points during the budget process. (MFSR)

## B. Scope of Spending Reviews and Topic Selection

**19. The SRP would benefit from a more targeted approach to spending reviews going forward.** As noted, the initial approach to spending reviews was a series of rolling sectoral or thematic spending reviews, where each iteration would incorporate the lessons from previous waves. This provided for broad reviews, which helped gain deep understanding of the different spending areas but were also time-consuming and came at the expense of the ability to develop analysis and potential measures in more depth. While the spending reviews have identified numerous measures, the majority of these were “governance” and “value” measures, with fewer concrete savings measures that could be used directly in budgetary decision-making. A transition towards more targeted spending reviews with a narrower focus—particularly in areas where a broad sectoral spending review has been carried out and prepared the necessary analytical underpinnings—would facilitate deeper analysis of spending components, fuller development of potential measures, and thus potentially more impactful spending reviews from a budget



perspective. As noted in Chapter II, some recent spending reviews have already adopted this more targeted approach.

**20. In due course, the MFSR should reconsider the requirement to review half of the public spending during each government term, but only in combination with better enshrining the spending reviews in the budget process, as recommended above.** With a more targeted approach to the selection of topics for spending reviews, the amount of spending being reviewed would be less relevant to the extent that a narrower focus results in more successful incorporation and implementation of savings measures in the budget. In fact, the existing provision could be counterproductive to achieving this objective given competing demands on capacity.

**21. Going forward, spending reviews should be oriented more towards identifying potential for savings or addressing expenditure challenges.** In contrast to broad sectoral reviews, a more targeted approach would aim to select topics for review based on their potential for delivering savings measures or measures to contain spending pressures. For example, spending reviews aimed at contributing to fiscal consolidation would typically be found in the larger programs (Figure 3.2). An assessment of past and potential spending pressures by program could also be used to identify potential areas for review to help mitigate the spending pressures. Or, the quantity of in-year virements could be a signal that budget execution in specific areas are off-track. The recent comprehensive assessment of the adequacy and efficiency of public spending in various sectors, which was completed in 2023, also contains valuable information that could help inform the selection of topics. A routine brainstorming session with VfM, BPS, and IFP staff could help to generate ideas, synthesizing their complementary knowledge and perspectives, and keeping the abovementioned elements in mind.

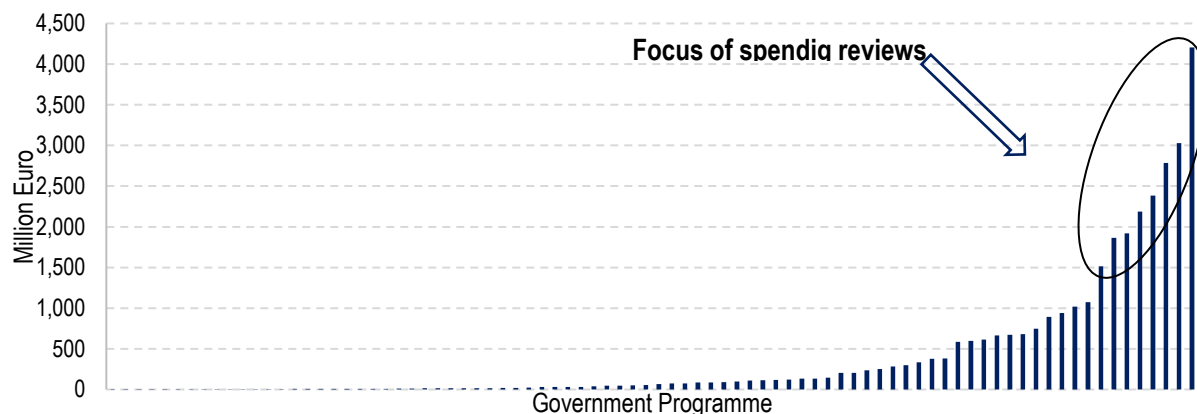
**22. Depending on fiscal needs, spending reviews may focus on programs with short-term or long-term spending pressures.** In the context of short-term spending pressures, targeted reviews focusing on programs or processes<sup>7</sup> can help identify concrete savings measures impacting the near-term budget cycles, for example savings related to eliminating or cutting back programs, lowering the cost of delivering services, or strengthening the cost-efficiency of business processes, such as procurement.<sup>8</sup> Such reviews may be agency-specific or horizontal. Moreover, if concerns are also focused on long-term fiscal sustainability, spending reviews may focus on containing future spending pressures related to drivers such as population ageing (for example, pension and health spending) or longer-term development needs (for example, physical infrastructure and technological change). In this case, broader policy area reviews, which examine specific policy topics and are generally aimed at delivering (increasingly) large savings over time, may be appropriate. Such reviews are complex in terms of organization, analysis and decision making, and they may also require new deliberation aimed at clarifying actual policy objectives and challenges. Although they are typically relatively large, the impact of policy reforms taken today may not be fully realized until many years out.

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<sup>7</sup> For detail, see FAD how-to-note on *How to Design and Institutionalize Spending Reviews*, 2022.

<sup>8</sup> In the Slovak Republic, savings measures traditionally have targeted addressing expenditure inefficiencies (for example, where spending levels in the Slovak Republic is higher than in peer countries). However, savings could also be achieved through reducing expenditures that, while not inefficient, would not substantially impact the well-being of citizens (that is, targeting spending effectiveness). This broader approach would be particularly important in times of fiscal consolidation needs.

**Figure 3.2. Relative Size of Program Budgets**



Source: Mission calculation based on MFSR data.

**23. The selection of topics should involve the relevant MFSR units and line ministries.** With a broad sectoral approach to the spending reviews, the VfM Division has been the main driver in selecting areas for review. However, with a more targeted approach, it will be important to gain wider input to the selection of topics to reflect (i) a greater focus on potential savings and policy challenges; (ii) the need to better align reviews with priorities in the budget process; and (iii) the need to enhance buy-in to the reviews and identified savings measures. In the MFSR, this would involve the VfM Division, BPS, and IFP to bring together their different perspectives—the proposed early discussion in the MFSR (Paragraph 17) could be an avenue for this. A formalized internal coordination group (steering committee) in the MFSR could be helpful to facilitate the process; the recently established committee for monitoring of the budget could also be used. Consultation with relevant line ministries would also be important to secure their buy-in and commitment, even before preparing the terms of reference for the review.

**Recommendation 2.** The MFSR should adopt a more targeted approach to spending reviews going forward and orient spending reviews more towards identifying potential savings or addressing specific short-term and long-term fiscal challenges. (MFSR)

**Recommendation 3.** A coordination group/steering committee in the MFSR, such as the already existing committee responsible for monitoring the budget, should facilitate internal collaboration and decision making on the topic and scope of spending reviews. (MFSR)

## C. Mandate and Terms of Reference

**24. Approval of the terms of reference by the Council of Ministers would strengthen the mandate for the spending reviews.** Currently, terms of reference for spending reviews are first approved by the Minister of Finance and the respective line minister, or, in some cases, by the state secretaries. While previously terms of reference were later approved by the government and always published on the MFSR website, more recently they have sometimes been seen more as for providing internal guidance and not published. Under the enhanced institutionalization of spending reviews proposed above (Paragraph 17), the Council of Ministers would approve terms of reference for the reviews, which would help strengthen the mandate. While deliberation in the Council of Ministers may take time, and potentially could constrain the scope of the review, the up-front awareness of and commitment to the review would be an advantage when the time comes for decisions on measures and their implementation.

**25. The formulation of terms of reference could be further specified for the more targeted reviews.** Given the broad sectoral approach to spending reviews, terms of reference in the Slovak Republic have typically described the overall aim of the spending review, issues to be analyzed, as well as relevant performance information. It also included a high-level estimate of the budget involved, the timeline, and broad responsibilities. For more targeted reviews, the terms of reference could benefit from more specification of some aspects to emphasize their focus: (i) background (motivation for the review); (ii) analytical questions to be addressed in the review; (iii) multi-year presentation in tabular form of the scope of the review (by budget lines) and savings target; (iv) guidance on the nature and costing of proposals to be formulated in the review (see Section III.E); and (v) details on how the review will be carried out, including timelines. Reflecting a more collaborative effort, the terms of reference should provide detail on the organization of the review and responsibilities of the different contributors to the review. Box 3.2 presents the main elements that should be considered in preparing the terms of reference.

### Box 3.2. Main Elements of a Terms of Reference

- Background/context: Why is the spending review initiated; what is the context and issue(s) to be addressed?
- Scope, including a budgetary table. What are the specific budget areas/administrative units that the spending review will cover?
- Analytical questions to be answered. What specific analytical questions/tasks should the review consider?
- Objectives: What are the specific objectives for the review; what types of measures should be considered and how will they be formulated; what are the target outcomes for the review, including any numerical targets?
- Outputs: What outputs will the review provide, and to whom will they be addressed?
- Organization: What are the governance arrangements for the review; composition of review team; modalities for collaboration; and responsibilities?
- Milestones and timelines: What are the key milestones to be achieved during the review; the timeline for finalization of the review; and the deadline for the final report?

Source: IMF Mission team.

**26. The MFSR should include a savings target for the reviews.** Setting clear objectives and savings or efficiency targets at the outset of the process can help set the ambition for the review, incentivize the review teams, and help identify trade-offs across different review proposals. Many countries routinely include such targets for the reviews; for example, the Netherlands generally apply a standard 10-20 percent quantitative savings target. While generally the terms of reference should not consider the utilization of identified savings, in some cases it may be warranted to indicate that savings would be kept within the sector, for example to mitigate identified spending pressures.

**27. The nature of savings targets should differ for different types of spending reviews.** For program/process reviews, savings targets should be defined in quantitative and concrete terms, for example as a nominal amount or a percentage of the scope of the spending review. The savings targets

should be considered in the context of the analysis of the fiscal space—a need for fiscal consolidation may lead to more ambitious targets. At the same time, targets should not be set too ambitiously as it may lead to unrealistic outcomes and jeopardize the use of the spending reviews in the budget process. For spending reviews focused on addressing fiscal sustainability concerns (containing expenditure growth), and thus more long-term in nature, targets would typically be expressed as a medium-term figure in structural terms, for example as a percentage of GDP.

**Recommendation 4.** Terms of reference for spending reviews should be more detailed and approved by the Council of Ministers to strengthen the mandate for the reviews, and they should be published. The MFSR should include specific savings targets in the terms of reference. (MFSR).

## D. Carrying out the Reviews

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**28. The collaboration on carrying out spending reviews should be enhanced.** Spending reviews have so far been led by the VfM Department and line ministry Analytical Units, where collaboration has apparently been very strong. At the same time, there has been limited involvement from the BPS or budget units in line ministries, which have focused primarily on reviewing and commenting. As discussed earlier, this limited involvement has created challenges in terms of integration with the budget process. In some cases, the BPS or budget units in line ministries have held a different view with respect to the budgetary impact of measures, leading to lengthy discussions after the finalization of the report. To address this issue, the VfM Division took steps to involve the BPS at an early stage in the elaboration of the ongoing education review.

**29. Collaboration on spending reviews should be formalized through the creation of a working group (or review team) for each review.** International experience suggests that a joint review, where all relevant government stakeholders are involved, has proven to be the most effective at delivering more realistic and better developed spending measures capable of being integrated into the budget.<sup>9</sup> This reflects a combination of factors, including ensuring ease of access to information, securing buy-in from key stakeholders, and ensuring that those ultimately responsible for implementing the proposal have been involved in its design and therefore have greater ownership of identified measures.

**30. A flexible approach should be adopted in creating the working groups depending on focus and required expertise.** The terms of reference should set out the composition of the working group, which should include at least a staff member from each of the BPS and the relevant line ministry budget unit, in addition to the core VfM/Analytical Unit team. In some cases, such as review of tax expenditures, healthcare, or social spending, IFP could also be part of the working group; for cross-cutting reviews, staff from more than one line ministry could be involved and part of the working group. Working groups should be composed of staff at the appropriate level required for effectively carrying out the review, such as Director level. The working group could invite experts or representatives from other relevant entities on an ad-hoc basis as needed, such as from hospitals, insurance companies, or state-owned entities. Working groups could be guided by some ‘rules of the game’, such as the methodology guideline currently being

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<sup>9</sup> FAD How-to-note on *How to Design and Institutionalize Spending Reviews*, 2022.

prepared by the VfM Division.<sup>10</sup> As an example, Box 3.3 below summarizes the prevailing ‘rules of the game’ guidelines for the Netherlands.

### **Box 3.3. Guidelines for Spending Reviews in The Netherlands**

Spending reviews have been conducted in the Netherlands since the 1980s. The approach taken has evolved to fit the current characteristics of the Dutch budgetary and institutional system. Particularly, spending reviews are a-political and contain options for a separate process of decision-making, which is distinct from the elaboration of the spending reviews and the identification of potential measures. The Dutch guidelines for spending reviews include the following principles:

- The Ministry of Finance is responsible for the overall process; the terms of reference are approved by the Council of Ministers; and the Ministry of Finance publishes the terms of reference with the budget proposal.
- Spending reviews are conducted by an inter-departmental working group led by an independent chair, who is supported by secretaries from the Ministry of Finance and the line ministry. The members of the working group are not supposed to receive instructions from their hierarchy with respect to the spending review.
- Policy options are generally assumed to be budget neutral, and each spending review should identify savings options of 10-20 percent of relevant expenditure. Value-enhancing options may be included in the terms of reference.
- Any working group member may propose measures and no measures can be vetoed by other members.
- The final report will be published by the line ministry within two weeks after finalization and the political assessment will be prepared by the line ministry in collaboration with the Budget Department and published within eight weeks after finalization.
- In practice, the objectives of spending reviews vary, depending on the topic, but also with respect to the consolidation needs. For example, the round of twenty spending reviews in 2010 contained substantial savings and reform options, whereas the 2019 round of sixteen reviews also presented a substantial number of value-enhancing options.

Source: Dutch Ministry of Finance, <https://www.rijksfinancien.nl/miljoenennota/2024/bijlage/1843567>;  
<https://www.rijksoverheid.nl/documenten/kamerstukken/2020/04/22/rapporten-brede-maatschappelijke-heroverwegingen>;

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<sup>10</sup> It is good international practice to formalize the organizational and governance framework for the spending reviews through a Spending Review Concept Note approved by the Cabinet. This would set out principles for organizational arrangements, the approach, and other key elements in the spending review framework.

**31. In some instances, establishing a higher-level Steering Committee for a review could be useful.** This could be the case, for example, in very large or high-profile spending reviews with a potential need for providing higher-level oversight and strategic direction to the working group. Such a Steering Committee could be established at the Director General level and could also include external experts, such as from academia or high-level representatives from the administrative entities under review.

**32. The practice of publishing an interim report no longer seems to be needed.** While the publication of interim reports, which would present the analytical work underlying the review, was useful in raising awareness of the SRP in its earlier phases—engaging stakeholders and generating public debate—they seem to have lost some relevance as the SRP has matured. Particularly, when moving towards more targeted spending reviews with a shorter duration, the preparation and publication of interim reports seem redundant.

**Recommendation 5.** A formal working group should be created for each spending review, responsible for executing the terms of reference and comprised of staff (possibly at Director level) of the VfM Department, BPS, Analytical Units and budget units in line ministries, as well as other members as relevant. Working groups could be guided by standard ‘rules of the game’. (VfM)

**Recommendation 6.** For large or high-profile spending reviews, establish a high-level Steering Committee at Director General level to provide strategic guidance and direction. (VfM)

**Recommendation 7.** Reflecting a move towards more targeted spending reviews, drop the practice of publishing an interim report for each review which presents supporting analytical results. (VfM)

## E. Formulation of Measures

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**33. The formulation of measures is a critical part of the spending review.** This includes the description of each measure; its policy rationale; short- and medium-term fiscal costs and benefits; affected groups; other important implications; and implementation issues and challenges. Robust well-developed measures are needed to facilitate decision-making on an informed basis and the subsequent incorporation into the budget. Moreover, the feasibility of savings measures should be tested from various perspectives—while the top-level focus on the budget is imperative, other implementation-related aspects should be considered, including legal aspects, implementation costs, ownership of the measure, and timeframe for implementation. Given its challenging nature, the bulk of the review time should be spent on developing the measures.

**34. The description of measures in the SRP has been uneven across reports.** As discussed in Chapter 2, the spending reviews to date have put forward more than 800 proposals across three types of measures—savings measures; value measures; and governance measures. In some cases, measures were described in some detail (e.g., reports on subsidies, and on labor market and social policies—the latter including some impact analysis based on microsimulations). However, in most cases the reports included only brief descriptions of the measures (often in table form), with relatively limited discussion of their consequences and implementation details. In part, this was due to the broad scope of the spending reviews, which focused on comprehensive analyses to gain an improved understanding of the spending areas. For example, savings measures frequently indicated a potential for savings based on benchmarking rather than a full-fledged proposal. The description of the measures in the final report of spending reviews assumed their closer specification in the Implementation Plan.

**35. A move towards more targeted spending reviews would facilitate the development of fewer but more impactful measures.** More targeted reviews enable deeper analysis and time to develop measures in all the dimensions needed for decision making. Impact analysis is particularly important as this will determine the feasibility of the measure, both technically and politically, and the possible need for mitigating measures. Box 3.4. provides a sample template for the detailed information that should be provided for each measure.

<b>Box 3.4. Sample Template for Information to be Provided for Measures</b>	
<b>Policy description:</b>	Description of measure.
<b>Fiscal impact</b>	Budgetary savings/costs resulting from the measure (short/medium/long term).
<b>Policy rationale:</b>	Explanation of policy rationale for the measure (informed by the spending analysis undertaken by the team).
<b>Affected groups:</b>	Details on the impact of policy change on stakeholders: <ul style="list-style-type: none"> <li>• Who will be affected by the policy change? How many will be impacted?</li> <li>• What is the financial impact/cost to those affected?</li> <li>• What are the social/economic consequences?</li> </ul>
<b>Other implications:</b>	Information relating to any other implications: <ul style="list-style-type: none"> <li>• Does the profile of longer-term savings differ?</li> <li>• Are there specific regional or sectoral considerations?</li> <li>• Are there any spillovers or consequences to other programs?</li> <li>• Is this consistent with coalition or other agreements?</li> </ul>
<b>Implementation:</b>	<ul style="list-style-type: none"> <li>• Details of implementation issues that need to be considered:</li> <li>• Is legislative change required? When would it need to be approved by?</li> <li>• Are there institutional changes that need to be made?</li> <li>• Is consultation or negotiation with third parties required?</li> <li>• Are there impacts on departmental resourcing?</li> <li>• How much time is needed for implementation?</li> </ul>

Source: Adapted from: IMF, Fiscal Affairs Department, note 22/04, 'How to Design and Institutionalize Spending Reviews'.

**36. Targeted spending reviews could also consider alternative options for each measure.** Reflecting the broad scope of reviews and high-level nature of the measures, the SRP spending reviews have generally formulated measures in a singular way, that is without presenting alternative options. More targeted reviews would allow for the presentation of different options, which could reflect, for example, different levels of ambition, different impacts, or options for mitigating measures for those affected by the measure. This would reinforce the nature of the spending reviews as a technical elaboration of options, leaving assessment of trade-offs for the decision makers in a subsequent process.

**37. The need for presentation and communication of measures to internal and external stakeholders should be considered when developing measures in the spending review.** While spending review reports have provided an abundance of information and analysis, they seem to have focused less on how best to present and communicate measures to decision makers, the agencies affected by the measures, and the public. Effective communication with stakeholders during the preparation of the spending review would also help ensure that the measures are implementable. In addition to providing solid technical analysis, the spending reviews should consider these aspects, linking



the measures to the analyses, presenting solid impact analysis, and presenting a convincing rationale for the measure mapped to policy priorities.

**Recommendation 8.** Spending reviews should provide more comprehensive analysis of potential measures, applying a broad set of criteria. Different options for measures should be presented where relevant. The review teams should also consider the presentation and communication of the measures to internal and external stakeholders as an integral part of the review. (Review teams)

## F. Decision-making and Implementation Process

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**38. The decision making and implementation process around spending reviews has been adapted over time.** In the earlier phases, spending reviews were approved by the Council of Ministers in their entirety and published, and it was implicitly assumed that all measures would be implemented. However, as it was recognized that measures would typically need further elaboration before being considered for implementation, a separate process was established, with an Implementation Unit under the Government Office<sup>11</sup> responsible for preparing and monitoring Implementation Plans for each review (see below). Although Implementation Plans were not formally approved, they were published. In more recent years, spending reviews have been published without approval from the Council of Ministers and have been published as technical reports. In turn, the Implementation Plans have been approved by the Council of Ministers, incorporating a selected number of the proposed measures, and following public consultation.

**39. Implementation Plans have been a cornerstone in the implementation of the spending reviews.** These are short documents in table form, indicating for each measure one or more sub-measures; responsibility for implementation; timelines; and key objectives and performance indicators. The plans indicate a monitoring period, typically three to four years. As such, the plans are akin to a results-monitoring framework. The Implementation Unit prepares regularly updated progress reports based on a traffic light system, with elaboration of the implementation progress for each measure. The Implementation Unit consults with line ministries and the Value for Money Division regarding implementation progress and adjusts the plans as warranted.

**40. While Implementation Plans constitute a comprehensive monitoring framework, they do not replace the need for detailed elaboration of measures in the spending reviews.** Given their nature, the Implementation Plans do not provide a comprehensive analysis of each measure based on a broad set of criteria outlined in the previous section. This is the role of the spending review, and adequately formulated measures are, in any case, a prerequisite for ensuring the adoption and effective implementation of measures.

**41. In line with current practice, spending reviews should be presented and published as technical reports, with a separate decision-making process on measures to be incorporated into the budget.** Based on the reports, decisions on measures should be made by the Council of Ministers (or a relevant subgroup of Ministers) and aligned and integrated with the budget process (see Section 3.A

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<sup>11</sup> The Implementation Unit was initially established as a unit in the Government Office, that is under the Prime Minister, with the role of preparing Implementation Plans in collaboration with the relevant line ministries, monitoring, and ensuring progress in implementation. The Implementation Unit was later dissolved, and the VfM Division in the MFSR took over the responsibility and worked on the implementation plan and report. Recently, however, the Implementation Unit was reorganized as a unit under the Deputy Prime Minister, with 6 staff. At this point, the focus is on monitoring progress in the implementation of measures through regular updates to the Implementation Plans.



above). Different options could be considered as part of the decision-making process.<sup>12</sup> Following decisions on measures, the budgetary impact would be reflected in the ministerial spending envelopes and the Implementation Plan would be prepared.<sup>13</sup> The MFSR should follow up meticulously with the Implementation Unit and line ministries on the implementation of measures with budgetary impact, for example, outlining progress in the preparation of the legislation necessary for the implementation.

**42. Spending reviews may benefit from enhanced legal foundation.** As noted earlier, the current budget legislation includes only a few provisions regarding spending reviews. However, it is understood that legal provision plays a key role in the Slovak Republic to facilitate processes and adherence to requirements. As such, the MFSR could consider potential benefits of developing a more comprehensive legal framework (as opposed to guidance) for spending reviews in the organic budget law in due course.

**Recommendation 9.** Spending reviews should be presented and published as technical reports in line with current practice, with a separate decision-making process for approving measures to be incorporated into the budget. (VfM)

**Recommendation 10.** The MFSR should consider potential benefits of more comprehensive legal provisions for spending reviews in the organic budget law following a trial period. (MFSR)

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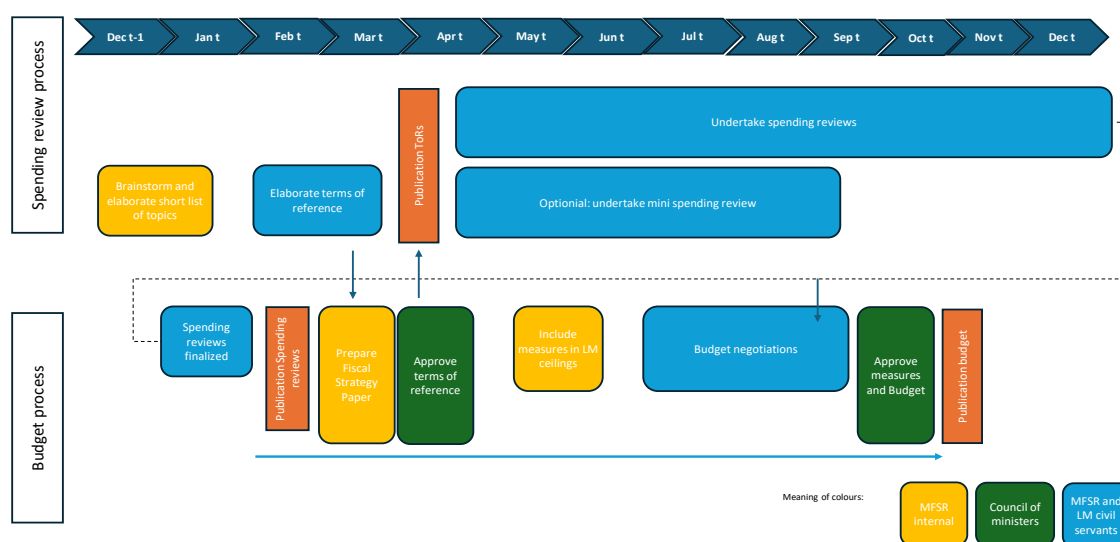
<sup>12</sup> To facilitate this decision making, the alternative measures proposed in the spending review report could be clearly and concisely summarized in a separate document, which could include key information needed for the decision making (drawing on the elements included in Box 3.4 above).

<sup>13</sup> The implementation plan is equally important for measures where the budgetary impact is more medium- to long-term (for example, measures to contain expenditure growth in the future). Such measures would typically be enshrined in legislation, and the legal provisions needed to implement the measures should be specified in the implementation plan and followed through. The budgetary impact would emerge gradually as future baseline projections are being developed. In some cases, there could be a small budgetary impact even in the short term, which would gradually increase over the years. The Implementation Plan should include estimates of the annual budgetary impact through the medium-term, including to be able to assess ex-post if the anticipated savings materialized as expected.

# Annex 1. Key Steps in Integrating Spending Reviews with Budgetary Decision Making

This Annex provides further detail to the framework for intersection of spending reviews with budgetary decision making, which is proposed in Chapter III.A of the report (see Figure A.1 below). The proposed framework draws on the experience from other countries, notably the Netherlands and Denmark, but adapted to the context of the Slovak Republic. It envisages a recurrent, year-round cycle with several intersections during the budgetary process. FAD has developed elaborate general guidance on how to design and institutionalize spending reviews, which should complement the advice provided in the report and this annex.<sup>14</sup>

Figure A.1. Alignment of the Spending Review Process with Budgetary Decision-Making



## Development of a shortlist of review topics

The first step in the proposed process is for the MFSR to discuss and agree internally on a short list of potential topics for the upcoming round of spending reviews (that is, spending reviews that would be initiated in April with targeted completion around January/February the following year). This discussion should take place in December or January as a collaborative process involving the VfM Division, the BPS, and the IFP. The discussion could be chaired by the State Secretary and comprise the DGs and other relevant staff of the three MFSR units.<sup>15</sup> This would bring together different perspectives, ideas, and views from the different units and help build consensus on the fiscal challenges and the ways they could be addressed through initiation of spending reviews. The discussion could also include a status of ongoing spending reviews that were initiated in the previous round of spending reviews and due for completion

<sup>14</sup> How-to-note: *How to Design and Institutionalize Spending Reviews*, Fiscal Affairs Department, IMF, 2022.

<sup>15</sup> The discussion could be anchored in the already existing committee responsible for monitoring the budget.

around the time of the discussion. The State Secretary's role in the discussion is critical to signal the high-level support; this would be important in subsequent discussions with line ministries (see below).

Staff of each unit should prepare for the discussion and present their perspectives and proposed spending reviews with sufficient detail to facilitate decision. The proposals could consider the criteria for selecting topics discussed in Chapter III.B. Informal consultations between the DGs could also take place ahead of the discussion with the State Secretary to help sharpen the focus of the proposals. The outcome of the discussion should be a short-list of proposed spending reviews for further discussion with the relevant line ministries and subsequent development of terms of reference.

### **Elaboration and approval of terms of reference**

Following preparation of a short-list of proposals, deliberations with the relevant line ministries should begin with the aim to cultivate their buy-in and ownership. This requires strong motivation for the proposed spending review topics, but also flexibility and tailoring to address specific circumstances and perspectives of the concerned ministry. The MFSR should make use of the knowledge of the line ministry to finetune the topic and determine the scope, which would help strengthen the ownership of the line ministry. The ministry may also have relevant ideas to enhance or refocus the review.

In practical terms, negotiations with the line ministries could be done in different ways depending on the institutional set-up. For example, in Denmark and the Netherlands, the Budget Directorate would initially discuss topics at the division chief level with counterparts at the same level in the line ministry, but discussions could be elevated if needed. In the Slovak Republic, the discussion could be undertaken by the VfM Division to exploit the good relationships with Analytical Unit counterparts in line ministries. The MFSR should prepare an initial draft of the terms of reference for the discussion (this could start as early as January), which should be further developed with input from the line ministry.

Early discussions with the line ministry may take some weeks and should result in a meeting in February/March involving the VfM Division and the BPS on the side of MFSR and the Analytical Unit and Budget Unit on the side of the line ministry.<sup>16</sup> The purpose would be to agree on the scope of the spending review and the draft terms of reference. Detailed terms of reference, in addition to support from the line ministry and MFSR at the highest level, is a key factor to ensure success of the spending review. If support for the spending review cannot be obtained at the DG-level, the State Secretary may need to intervene.

Following agreement on the terms of reference at the technical level, support should be obtained from the state secretaries and relevant ministers. The relevant DG in the line ministry would submit the terms of reference to the ministry's state secretary who, in turn, would consult with the line minister. In the MFSR, the DG of the VfM Division would submit the package of terms of references to the State Secretary who, in turn, would consult with the Minister of Finance. Following approval, the package of terms of references should be part of the material supporting the FSP, which would be discussed by the Council of Ministers in April. The submission to the Council of Ministers should request their approval and subsequent publication of the terms of references.

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<sup>16</sup> In the Netherlands, some give-and-take is often necessary to get the line ministry on board, for example with respect to the scope of the review, the use of savings, or pushing some spending review topics to a future round of reviews. At the same time, ensuring that savings measures are identified through a collaborative spending review process is typically seen by the line ministries as preferable to the Ministry of Finance designing (perhaps ill-conceived) measures themselves.

## Preparation and execution of the spending reviews

Once the terms of reference have been approved and published, the spending review process would move to the preparation and execution phase. It is important to note here the recurrent nature of the proposed spending review process (see paragraph 17 in the report): the spending reviews that would be initiated in April/May according to the process outlined above would generally not be completed in time to feed into this year's budget cycle. Rather, they would be completed around January the following year and would feed into next year's budget cycle. That is, the spending reviews are generally assumed to take around 8-9 months to carry out. One exception to this would be the initiation of small, highly focused spending reviews, which could be completed in a few months and feed into this year's budget cycle (next year's budget).

Beginning preparation early can help reduce time pressures throughout the process. The preparation phase consists of establishing a working group and/or other governance arrangements as set out in the terms of reference; preparing an outline; gathering data; setting up a database<sup>17</sup>; possibly contracting a third party for some analytical work; and initiating analyses.

A joint team of MSFR and line ministry staff at the core of the spending review is a key factor to ensure its success. The preparation phase could be undertaken by one or more experts from the VfM Division and from the Analytical Unit. They should work together as a team, acting as the secretaries of the working group and allocating most of their time to the review. The BPS and the BS would provide the analysis of the budgetary data. The working group (the composition of which would be set out in the terms of reference) could meet every 3-4 weeks to discuss preliminary findings and conclusions, draft chapters of the report, potential measures, and issues that need to be resolved. Experts not part of the working group could be invited to meetings on an ad-hoc basis if needed. Also, when relevant, the working group could jointly undertake site visits to the entity being analyzed, such as a public hospital, prison, or a university.

As a benchmark, the start-up phase after political approval and the analytical phase should take no more than half the available time, and so should be completed within a May to mid-August window. On completion of the start-up phase, team members should present proposed measures to the working group, based on the analysis of the first phase. These proposals should contain the elements described in chapter III.F in the report. While initially these proposals might not be fully developed, they should be made more precise during September-December, with the BPS and the Budget Unit providing the estimates of the budgetary effects. At the same time, the secretaries and the chair of the working group should guide the creative process on how to combine and present the various measures.

## Finalization and Integration into the budget

Once the spending review is completed and approved by the State Secretary and relevant line ministry state secretary it should be presented and published as a technical report, with a separate decision-making process on measures to be incorporated into the budget.

The spending review outcomes (proposals) should be available for consideration at the time the government is assessing the availability or otherwise of fiscal space, and the government's capacity to accommodate new spending priorities. For the Slovak Republic, this means that the spending reviews should be completed around January in time to feed into the FSP/Stability Programme discussions in

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<sup>17</sup> The database refers to input data, output data, and analytical results, in addition to budgetary data.

April<sup>18</sup>, and the MFSR should prepare and incorporate material regarding the completed spending reviews in the package presented to the Council of Ministers to facilitate their deliberation.

This would ensure that, at this stage of the budget cycle, the government has additional information on the extent to which the spending reviews have provided viable policy proposals that can generate additional savings/space that can be used either to meet consolidation needs, if needed, or generate additional fiscal space to fund new priorities. At this stage, the Council of Ministers would essentially be assessing which proposals are to be adopted in the budget, and those that it deems not viable or acceptable, which it will not proceed with. It also ensures that the outcomes are factored into the spending envelopes for the different budget chapters.

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<sup>18</sup> Beginning next year, the existing Stability Program will be replaced by a new multiyear Fiscal Structural Plan, which is expected to be presented in September. Although the exact format has not yet been established, the plan will be covering a period of 4-5 years.