



REPUBLIC OF SLOVENIA

TECHNICAL ASSISTANCE REPORT—ESTABLISHING A SPENDING REVIEW PROCESS

September 2015

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REPUBLIC OF SLOVENIA

Establishing a Spending Review Process

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Chris Uregian**

June 2015

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ACRONYMS AND ABBREVIATIONS

CESEE	Central and Eastern and South Eastern Europe
CER	Comprehensive Expenditure Review
GG	General Government
GDP	Gross Domestic Product
EU	European Union
FAD	Fiscal Affairs Department
IMAD	Institute of Macroeconomic Analysis and Development
IMF	International Monetary Fund
MoF	Ministry of Finance
OECD	Organization of Economic Cooperation and Development
PFL	Public Finance Law
PFM	Public Financial Management
PISA	Program for International Student Assessment
R&D	Research and Development
SOE	State-Owned Enterprise

PREFACE

At the request of the Slovene Minister of Finance, a technical assistance mission visited Ljubljana during April 30–May 12, 2015. The purpose of the mission was to advise the authorities on establishing a spending review process. The mission met with: Minister of Finance, Mr. Dušan Mramor; Minister of Health, Ms. Milojka Kolar Celarc; University vice-chancellor (and nominee for Minister of Education), Ms. Maja Makovec Brenčič; Ministry of Finance State Secretaries, Mr. Bojan Pogačar and Ms. Mateja Vraničar; Budget Director, Ms. Saša Jazbec and other senior Ministry of Finance officials. The mission also met with the State Secretary of the Ministry of Labor, Family, Social Affairs, and Equal Opportunities, Mr. Peter Pogačar and other senior officials from the Ministries of Labor, Family, Social Affairs, and Equal Opportunities, Health and Education, and Sport. In addition, meetings were held with senior officials in the Office of the Prime Minister, IMAD, and the Slovenian Court of Audit.

The mission would like to express its sincere appreciation for the excellent support given by all these staff during the mission and also thank Ms. Ema Rode for her extremely diligent efforts in coordinating the work of the mission. Our interpreters, Ms. Maja Viteznik, Mr. Marko Rant, and Mr. Matej Sodin also performed an admirable job during the mission.

Sincere thanks must also go to Mr. David Coady, Division Chief of FAD's Expenditure Policy Division and his staff for their invaluable input into the international benchmarking exercise that helped to shape the discussions with authorities during the mission.

EXECUTIVE SUMMARY

Slovenia's fragile fiscal situation requires further consolidation to ensure that the upward trajectory of public debt does not threaten long-term fiscal sustainability. Fiscal consolidation measures to date have largely concentrated on one-off measures and across the board spending cuts.

The absence of comprehensive structural reforms together with growing pressures to reverse these one-off measures point to the need for a more comprehensive review to stem the rise in expenditure levels, which have increased by over 5 percent of GDP since 2008. This process is now underway.

Successful spending reviews in other countries focused on large ticket spending programs and sectors and Slovenia is no exception. The main areas targeted in the current spending review are the Health, Education, and Social Welfare sectors. An international benchmarking analysis, carried out as an input to this report, identifies specific areas of concern, most of which have been corroborated by similar findings in other studies carried out by international organizations, including the OECD.

Spending in the Education sector is the fourth highest spending level as a share of GDP in the EU with the greatest inefficiencies having been identified in primary and, to a degree, secondary level. Many of the inefficiencies stem from rigidities in the education funding model which do not flexibly adjust to changing demographics. Some measures that could be considered include consolidation of schools with very low numbers of children, possibly by setting a floor on student/teacher ratios.

The Health sector, which is carrying out a stand-alone spending review process with the help of the World Health Organization, appears to produce good health outcomes, but it also has inefficiencies that should be carefully reviewed. These include: continued reliance on costly secondary and specialist care; and an overly generous health care benefit package.

An already high and growing level of social benefits is the biggest challenge to future fiscal sustainability. In particular, this is due to pension growth reflecting the rapidly ageing population and generosity of existing schemes. Recent reforms have only served to temporarily constrain spending pressures and further measures are needed to ensure that a viable pension system can be sustained over the long-term. These measures could include further reviews of benefit indexation levels, tax treatment of pensions, and further restrictions on early retirement.

To address the need for further consolidation measures, working groups have been established in Education and Social spending tasked with identifying spending measures and

proposing them to policy makers, although their terms of reference need to be formally agreed. The health spending review already underway is tasked to report by July.

The working groups are not decision making bodies and a key challenge will be putting in place a decision-making process at the political level that results in successful agreement and implementation of measures proposed by the working groups. One option would be a sub-committee of cabinet, following the example of other advanced countries that have successfully implemented spending reviews. The MoF also has a key role in coordinating the outputs, ensuring consistency of approach, and meeting deadlines.

For the spending review to impact on the 2016 budget, the process will need to be largely completed and agreed by end-July 2015. This ambitious timeline will consequently necessitate a focus on a narrow set of policy areas with clear review criteria and consistent methodologies with a view to providing a menu of measures with medium-term savings proposals. Given the tight timeframe for analysis, it is likely that additional measures will need to be further identified for inclusion in subsequent budget years.

Spending pressures also need to be explicitly identified, quantified, and included in the spending review to better inform the government's decision making process.

Identifying savings to protect the fiscal position in the short-term is the most urgent objective, but the government should consider embedding the spending review process more formally, as part of an ongoing fiscal management procedure. This would suggest that the spending review process should be regulated, preferably as an additional provision in the Public Finance Law, which is currently being reviewed.

There is also a need to update existing performance information associated with government expenditure programs to ensure that more meaningful information focused on achieving desired outcomes is developed to better inform future reviews.

I. INTRODUCTION

1. Slovenia's fiscal situation remains in a troubled state, with continuing high deficits, and public debt projected to continue its upward trajectory. Slovenia suffered one of the deepest recessions among euro area countries after the financial crisis, with real GDP declining by around 10 percent. In addition, the failure of a number of domestic banks required public support of around 10 percent of GDP, which added to the government's debt and deficit in 2013 and 2014. As a result, fiscal deficits ballooned from near balance in 2007, to a deficit of almost 14 percent in 2013, and debt quadrupled to around 80 percent of GDP.

2. While the fiscal deficit has now declined to around 4 percent of GDP, reflecting the end of support to the banking sector, further consolidation is needed. Under current projections, debt is anticipated to continue to increase, to around 90 percent of GDP by 2020. In the latest EU Stability Pact, the government committed to a ½ percent of GDP reduction of the structural fiscal deficit each year for the next four years. While sufficient to meet European commitments, an adjustment of some ¾ percent of GDP is necessary to bring debt down to under 80 percent of GDP by 2020.

3. To date, much of the fiscal consolidation has relied on one-off measures, and horizontal, across-the-board cuts, that will be difficult to rely upon in the future. The clamor to reverse some of the measures already taken is also contributing to a buildup in spending pressures in the budget. In particular, the freeze on pension and wage indexation that provided the bulk of consolidation over the past decade will start to expire under existing collective agreements. Indeed, the Stability and Growth Pact document provided for just such an increase in pension indexation

4. Taken together the growing spending pressures and the need to further consolidate to meet the medium-term fiscal objective will be challenging and likely require structural spending reforms. The space for further across the board horizontal cuts, such as continuing indexation freezes and hiring freezes is limited in an environment where the general population has already witnessed five years of austerity measures. In addition, while in practice indexation freezes and hiring freezes can be easier to implement and more likely to generate big savings, targeted measures can better address inefficiencies and be used to introduce necessary structural reforms.

5. Identifying potential areas where spending can be rationalized requires a structured spending review process. Similar exercises have been carried out in other countries facing challenging fiscal situations and in some instances on multiple occasions (e.g., Australia, UK, and Ireland). These spending review exercises have had many different objectives, including identifying areas where efficiencies can be sourced, resources

reallocated or in many cases where costs can be reduced to repair the fiscal position following economic shocks (Ireland 2011, Greece 2010, 2012, and 2014 are cases in point). They can also be the starting point for structural reforms that target expenditure towards more efficient and growth oriented policies (such as investment spending), while at the same time ensuring the sustainability of public finances.

6. Bearing this in mind the authorities are focusing their efforts on examining spending in the largest spending areas, including Social Benefits, Education and Health sectors. An independent review is being carried out on the Health sector and is therefore only being looked at peripherally as part of this report. However, the education and social welfare sectors (including pensions) have been discussed extensively during the course of the mission, with a view to determining how best to establish and complete the spending review process and importantly, how to bring such a process to a successful conclusion.

7. The rest of this paper: examines the rationale for carrying out a spending review (Section II); describes how to establish such a process, drawing heavily on the experiences of countries that have successfully implemented spending reviews (Section III); and seeks to identify the expected outcomes and next steps that Slovenia needs to undertake to ensure a similar successful outcome (Section IV).

II. RATIONALE FOR THE SPENDING REVIEW

A. Broad Objectives of the Spending Review Process

8. To provide higher-quality, better targeted and more enduring measures, the government is undertaking a focused spending review of the largest spending areas. Two new working groups are being established to review the education and social welfare areas, and a third, already existing, review of the health system is focused on developing a health strategy that is fiscally sustainable while seeking to maintain a high level of service.

9. The objectives of spending reviews are threefold:

- Assist the government's medium-term fiscal consolidation task by identifying a menu of high quality potential savings measures.
- Improve allocative efficiency by identifying potential shifts in expenditure from lower priority to higher priority sectors, both within and across portfolios.
- Improve value for money, by identifying areas of inefficient spending, where similar outcomes can be achieved with reduced inputs.

10. The overall savings task of €200m a year is likely to be conservative estimate, given building spending pressures. In order to provide a complete picture of the fiscal task in each of these spending areas, review teams should start by identifying the medium-term spending pressures that will need to be offset. These may include “parameter pressures,” such as underlying demographic trends and price pressures; as well as “policy pressures,” such as building political pressure to reverse past pension and wage freezes and cuts.

11. Identifying savings options is at the heart of the review, as these will be necessary to offset building expenditure pressures, and to make fiscal space for new policies. In order to identify these options, the spending reviews should evaluate existing programs against a set of criteria, such as;

- How well the objectives of the program are aligned with the government’s policy priorities;
- Available evidence on the performance of the program, including how well the program meets its policy objectives and its cost-effectiveness;
- Whether there is scope to improve the efficiency of the program through its design, service delivery and/or simplifying administrative arrangements;
- Whether there is scope to better target the program to meet the government’s policy objectives;
- Whether there is scope to consolidate lower priority programs and/or remove duplication.

12. Drawing on the findings of the program evaluations, the spending review should identify a range of savings options to feed into a ministerial decision making process. Developing these savings options should be the key output of the spending review process, and should include medium-term financial implications, policy rationales, identify effected groups and provide distributional impacts (see Appendix IV for an example of a saving option).

13. The review may also seek to identify high priority spending areas, and work up some new offsetting policy measures where some portion of the savings can be redirected. This will have the benefit of improving allocative efficiency, as well as helping to provide further policy justification for savings options by redirecting spending towards high needs groups that may otherwise have been impacted by the overall saving.

B. Fiscal Challenges in Key Spending Areas

14. Given the time available for the review, the spending reviews may need to focus on assessing the largest programs, or those that are identified as most promising, ex ante. There are some 69 types of social benefit payments within the welfare portfolio alone and numerous others that fall within other portfolios, such as education. Similarly, the education and health areas incorporate a wide variety of activities that are unlikely to be feasibly examined in required detail within the two-month time horizon.

15. To assist in identifying fruitful areas for examination by the spending reviews, the mission undertook a high level international benchmarking assessment. The benchmarking exercise compares Slovenia's expenditure patterns to its Central Eastern and South Eastern European (CESEE) comparators, as well as the broader European Union in each of the three areas. Spending is assessed using economic and functional spending data drawn from Eurostat's Government Statistics database. The effects of bank recapitalizations have been removed in order to focus on underlying trends.

16. The international benchmarking assessment provides a strong starting point for a spending review. It identified: spending areas where Slovenia is a relative outlier, and may therefore be candidates for savings or addressing inefficiencies; areas of recent spending pressures; future spending pressures—particularly in the pension and health care spheres, where demographic pressures tend to dominate; and spending efficiency, by comparing the impact of spending on outcomes.

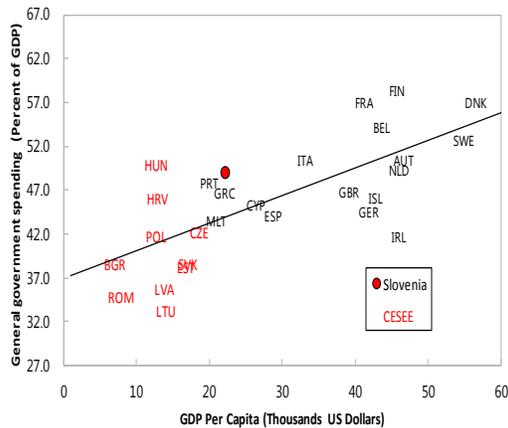
17. However, it is no substitute for deeper policy analysis that the spending review teams will need to undertake. There may be good reasons why Slovenia is an outlier in some spending areas, such as particular needs facing the country that others may not face. There are also comparability issues that arise when comparing data internationally, particularly around boundaries of government (e.g., are SOEs within or outside of the general government, public versus private shares responsibility for paying for services etc.). Finally, use of broad country wide averages can often hide important variations that need to be picked up in deeper analysis.

Overall government spending

18. Overall, Slovenia's total public spending is high relative to comparators, and has increased by around 5 percentage points of GDP since 2008 (Figure 1). Both the size and the increase in spending is due to current spending as a share of GDP, rather than investment expenditure, with the bulk of the recent increase driven by rising social benefit and wage expenditure (Table 1). Much of the expenditure increase has resulted from the extremely large drop in output (some 8 percent) since 2008 that was not fully reflected in

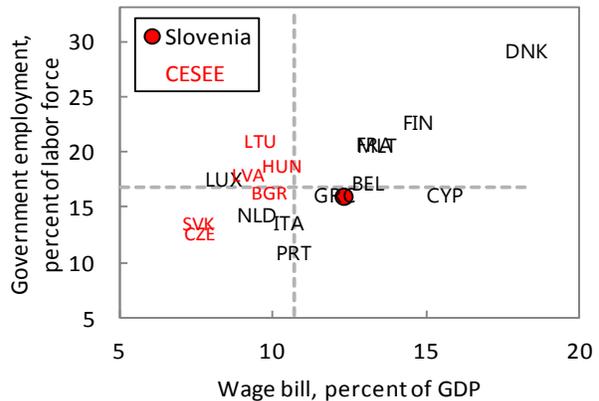
similar falls in the levels of expenditure. Consequently, total public spending has risen to levels that are at the high end of comparator countries in the region.¹

Figure 1. General Government Spending 2013



Source: EUROSTAT General Government Statistics.

Figure 2. Wage Bill and Government Employment 2012



Source: EUROSTATy

19. Slovenia's wage bill is high relative to comparators, and amongst the upper quartile in the EU. This appears to largely reflect higher wage levels (relative to GDP) rather than a larger share of government employment (Figure 2). The average wage of government employees is around 1.6 times GDP per capita, compared to the EU average of 0.9. Research undertaken by IMAD indicates that this is mainly a compositional issue, with a much greater share of public administration employees holding tertiary qualifications in Slovenia (56.7 percent in 2011) than the EU-28 average (37.5 percent). However, in certain sectors such as education and health where the educational composition of the public workforce is in line with EU averages, Slovenia's relatively large wage bill is being driven by comparatively high employment levels.

20. While government employment is lower than the EU average, it has been on an upward trend (Figure 3). This stands in stark contrast to that of other EU countries, where government employment has declined since the onset of the crisis. IMAD analysis indicates that employment in education and health are responsible for this increase, partly offset by a decline in public administration employment (Figure 5).

¹ Source: Slovenia: IMF 2014 Article IV consultation.

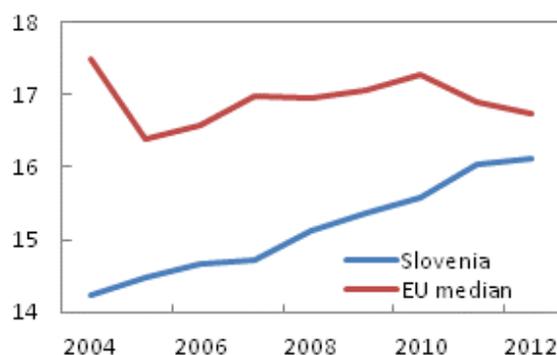
Table 1. Slovenia: General Government Expenditure
(Percent of GDP)

	2008	2009	2010	2011	2012	2013	Difference (2013-2008)	
	(percent of GDP)						(ppts of GDP)	(share of total increase (%))
<i>Economic classification</i>								
Total expenditure	44.1	48.6	49.3	49.0	48.0	49.1	5.0	100.0
Current spending	38.2	43.0	44.3	44.5	44.4	44.9	6.7	135.2
Compensation of employees	11.0	12.4	12.7	12.8	12.7	12.3	1.3	26.1
Goods and services	6.0	6.5	6.8	6.9	6.9	6.7	0.7	14.1
Interest payments	1.1	1.3	1.4	1.7	2.0	2.3	1.2	24.7
Subsidies	1.6	1.9	2.0	1.1	1.0	1.0	-0.6	-12.1
Current transfers	1.9	2.2	2.0	2.2	2.0	2.7	0.8	16.1
Social benefits	16.6	18.7	19.4	19.8	19.8	19.9	3.3	66.3
Capital spending	5.5	5.5	5.0	4.5	3.5	4.2	-1.3	-25.1
<i>Functional classification</i>								
Total expenditure	44.0	48.6	49.3	49.8	48.0	49.1	5.1	100.0
General public services	5.0	5.5	5.6	6.0	5.8	6.7	1.7	33.2
Defence	1.4	1.5	1.5	1.2	1.1	1.0	-0.4	-8.6
Public order and safety	1.7	1.9	1.9	1.9	1.8	2.1	0.4	8.8
Economic affairs	4.5	4.7	4.6	5.1	3.9	4.2	-0.3	-5.8
Environment protection	0.8	0.9	0.7	0.8	0.7	0.7	-0.1	-2.5
Housing and community amen	0.9	0.8	0.7	0.7	0.8	0.7	-0.2	-3.6
Health	6.2	7.1	6.9	6.9	7.0	6.9	0.7	13.4
Recreation, culture and religio	1.6	1.8	2.2	1.9	1.8	1.8	0.2	3.3
Education	6.1	6.5	6.6	6.6	6.4	6.5	0.4	7.3
Social protection	15.9	18.1	18.6	19.0	18.9	18.6	2.8	54.5

Sources: Eurostat and IMF staff calculations.

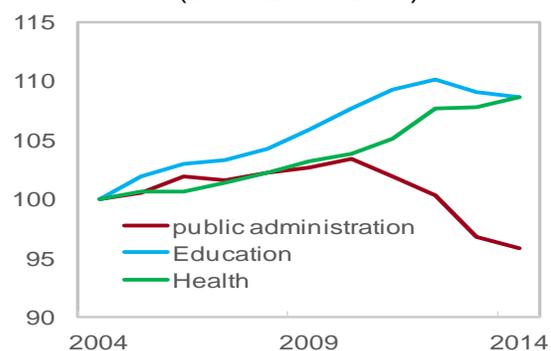
Note: 2013 functional spending taken from Slovenian statistical office

Figure 3. Government Employment
(Percent of labor force)



Source: Eurostat

Figure 4. Government Employment by Sector
(Index 100 = 2004)

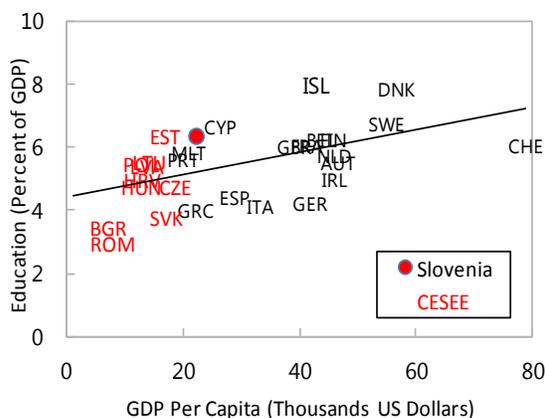


Source: AJPES - Agency of the Republic of Slovenia for Public Legal Records

Education

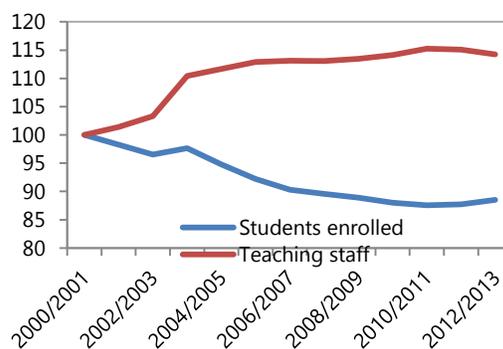
21. Education spending in Slovenia is the fourth highest in the EU, and the highest amongst its CESEE comparators (Figure 5). This result is particularly stark in the primary education area, but also in secondary education. Pre-primary and tertiary spending are broadly in line with EU averages. The high spending reflects relatively high wage bills and, to a lesser extent, goods and services, while capital spending is broadly in line with EU averages, suggesting an oversized sector in terms of employment.

Figure 5. Education Spending Controlling for Income 2012



Source: Eurostat General Government Statistics

Figure 6. Teacher and Student Numbers (Basic Education)
(Index: 100=2000)



Source: Statistical Office of Slovenia (SORS)

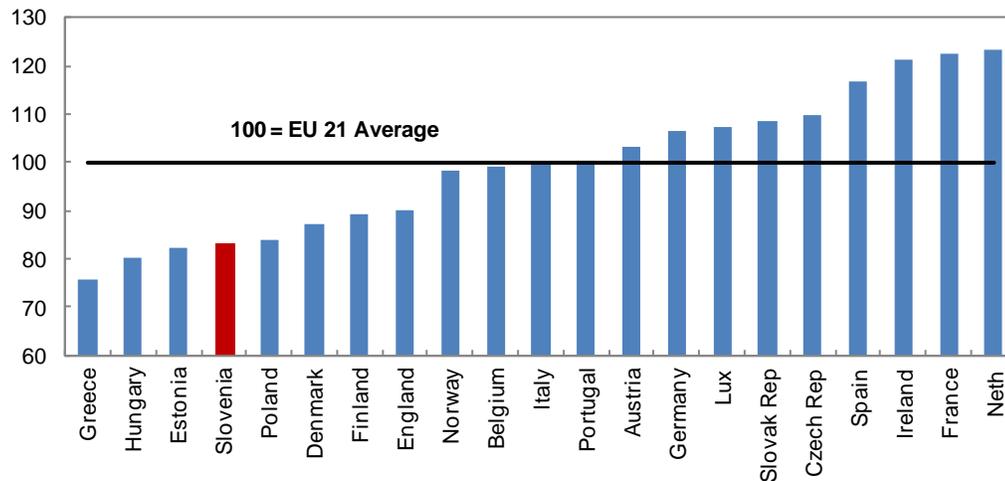
22. Education employment has continued to increase since 2000, despite a declining student population. Between 2000–12 the number of teaching staff in Slovenia increased by 27 percent, despite the number of people enrolled in formal education (including pre-primary) falling by 5 percent. The biggest divergences between staff employment and student enrollment were in the tertiary and basic education sectors. In the tertiary sector, students were 7 percent higher in 2012 vis-à-vis 2000, yet the number of teaching staff more than doubled (103 percent higher); in basic education, enrolled pupils fell by 11 percent between 2000–12, while the number of teachers increased by 14 percent (Figure 6). The freeze on aggregate teaching levels implemented since 2012 hasn't reversed this trend substantially as it has coincided with a fall in the total student population (notably in the tertiary sector).

23. Slovenia's low student-teacher ratios suggest there may be room to reduce staff levels without negatively affecting education outcomes. Slovenia has among the lowest student-teacher ratios in the OECD in pre-primary and lower secondary education, while public sector school class sizes in primary and secondary education are also below EU and OECD averages, suggesting room to merge small schools and transfer teachers to areas

with high demand. At the same time, Slovenia's relatively low teaching contact hours (Figure 7) stand out as a potential area for further exploration.

Figure 7. Net Primary Education Teaching Time (year)

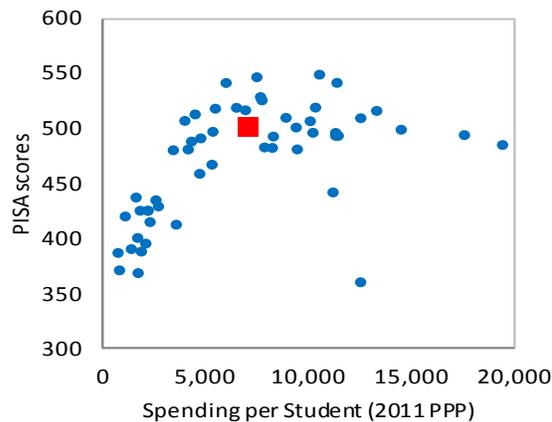
(Index: 100 = EU21 average)



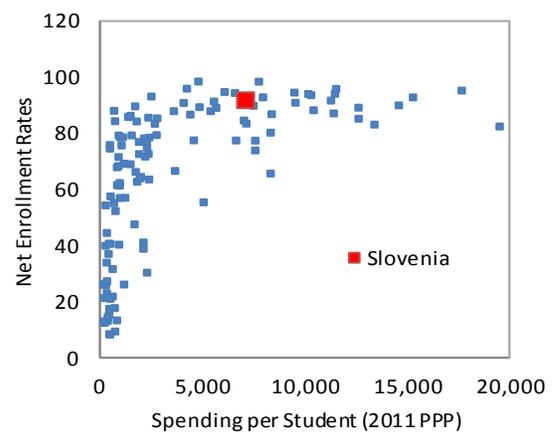
Source: OECD Education at a Glance 2014

24. Education performance appears to be relatively good, with strong education outcomes, though there are some inefficiencies. Slovenia's PISA scores, a common (though by no means perfect) measure of education outcomes, are around the OECD average, though spending is around 1 percent of GDP higher than countries with similar outcomes (Figure 8). Secondary school enrollment rates are relatively high, relative to spending per student but not excessively so (Figure 9).

25. Inefficiencies appear to be linked to rigidities, primarily in the primary education system, in responding to demographic changes. While the average student teacher and average class size ratios in Slovenia are in line with EU averages, considerable variation underlying the average point to some potential savings. Class sizes range from 4.5 to 24.2 pupils, with around 40 percent of schools having class sizes of less than 15 students per class, far below the legal limit of 28. Further, there are a large number of relatively small schools, with 50 percent of primary schools having less than 200 pupils, leading to high numbers of support staff. Many of these schools are legacy of formerly large student populations in shrinking regional areas.

Figure 8. PISA Scores to Spending

Source: OECD PISA, Education at a Glance

Figure 9. Enrollment Rates to Spending

Source: OECD Education at a Glance

26. In the tertiary sector, the eligibility criteria for student benefits could be tightened and universities' use of resources better monitored to create savings. These could then, at least partially, be reallocated towards well-targeted and managed research and development (R&D) initiatives. The recent reforms to reduce "fake students" have contributed to a 7 percent annual reduction in tertiary education student enrollment since 2011, showing the substantial budgetary inefficiencies in higher education. Additional savings could result from limiting financial support (tuition fee waivers, scholarships, transportation, meals) to those who complete their studies within normal duration and by setting tighter family income criteria as studies suggests less than 10 percent of state support goes to the bottom quintile of the income distribution. Finally, universities' use of resources should be monitoring more tightly with state financing linked to specific outputs rather than provided lump-sum, if need be by changing the legal framework.

27. Potential areas for savings reform include:

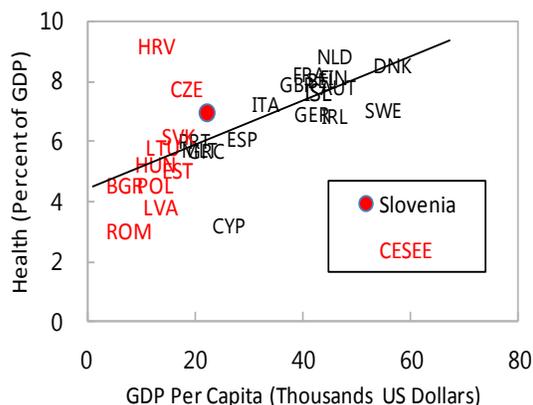
- Raising pupil-teacher ratios, particularly in pre-primary and lower secondary education;
- Optimizing the school network, with a focus on addressing the issue of overcapacity of schools that are not geographically isolated;
- Increasing teacher contact hours from the current OECD low of 22 hours, with a view to slowing or reversing the recent increase in teacher numbers; and
- Further tightening of financial support for tertiary students.

Health

28. Despite recent reforms, health spending in Slovenia is relatively high in relation to countries at similar levels of income and is projected to increase over coming decades (Figures 10 and 11). The high level of spending reflects a high wage bill and spending on goods and services. Demographic pressures and rising health inflation are projected to increase spending from 6.3 to 8.2 percent of GDP by 2060. Recent reforms have reduced pharmaceutical prices, and tightened hospital budgets.

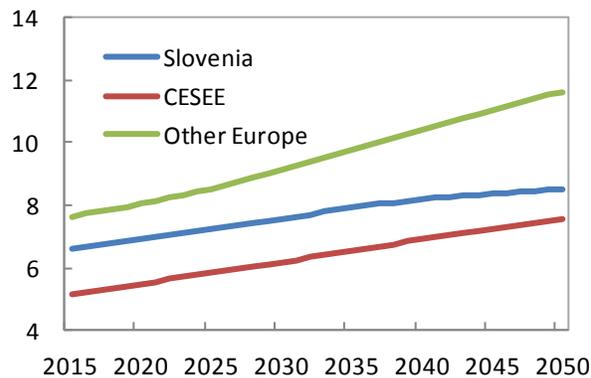
29. Health outcomes in Slovenia are relatively good, though there is evidence of inefficiencies. Health adjusted life expectancy is 71 in Slovenia, the highest of the CESEE comparators, and more granular outcomes (such as infant mortality, deaths from heart disease etc.) are also favorable. However, spending in health is around 30 percent higher than countries with similar life expectancies (Figure 12), and if healthy life years are used, Slovenia's outcomes fall significantly to amongst the lowest in Europe (Figure 13).

Figure 10. Health Spending Controlling for Income 2012



Source: EUROSTAT General Government Statistics

Figure 11. Public Health Spending (Percent of GDP)



Source: EUROSTAT

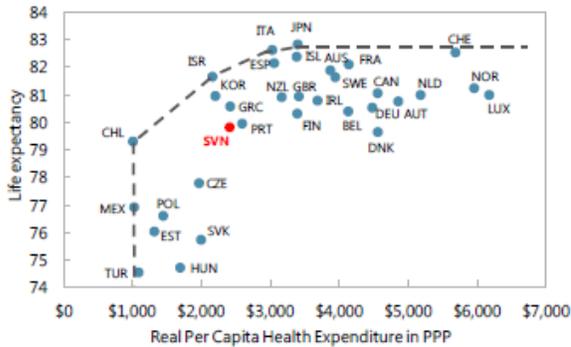
30. Areas of inefficiencies² include:

- Continued reliance on costly inpatient and specialist care;
- Insufficient partnership with the private sector in ambulatory settings;

² Sources: Source: IMF: Slovenia Selected Issues Paper – Social Spending Reform and Fiscal Savings in Slovenia, January 2015.

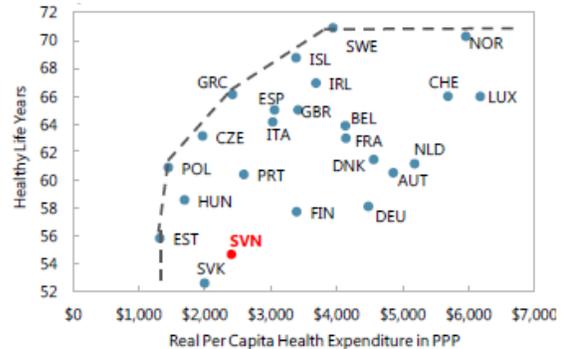
- Historically generous primary health care benefit package;
- Variable quality of care, which is not always targeted to rewarding high performance; and
- Insufficient focus on treatment of proven clinical and cost effectiveness.

Figure 12. Health Adjusted Life Expectancy and Health Expenditure 2010–12



Source: IMF staff calculations

Figure 13. Healthy Life Years and Health Expenditure 2010–12



Source: IMF staff calculations

31. Potential areas of reform focus include:

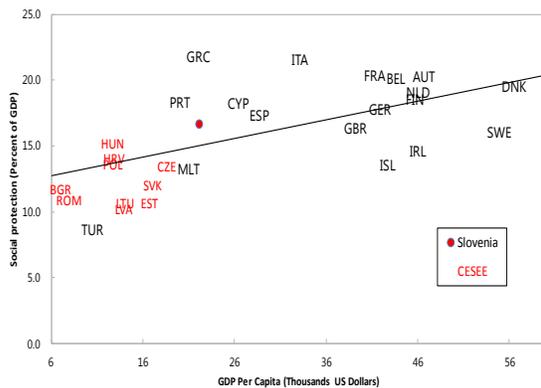
- **Strengthening the primary health care system**, by expanding the network of practices providing a broader range of integrated services, including chronic conditions and early detection of non-communicable diseases.
- **Development of an efficient provider payment systems for hospitals.**
- **Appropriate use of co-payments, combined with cost effective basket of services.**

Pensions and social benefits

32. Social protection spending in Slovenia is relatively high, both in pensions and social assistance, and has been growing rapidly (Figure 14). Spending on social benefits increased by more than 3 percentage points of GDP during 2007–13 to more than 18 percent of GDP. Pension spending makes up around two-thirds of the total, and has been responsible for the majority of the increase.

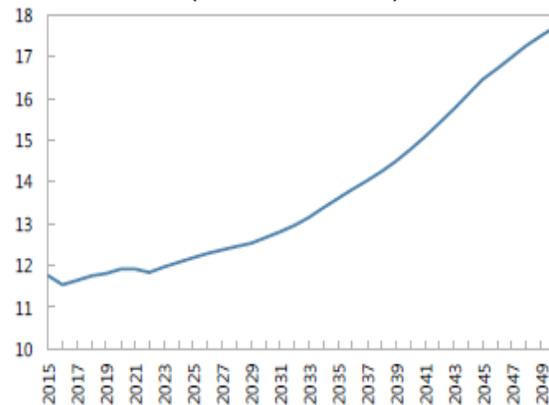
33. Despite the large amount of pension spending, poverty among the elderly is relatively high (Figure 16). This appears to be largely related to the high degree of early retirement, and the consequential fewer number of contributory years, resulting in relatively low pension incomes.

Figure 14. Social Protection Spending Controlling for Income 2012



Source: EUROSTAT General Government Statistics.

Figure 15. Pension Expenditures (Percent of GDP)



Sources: Ministry of Finance, United Nations and IMF staff calculations.

34. Pension spending is projected to increase by 6 percent of GDP by 2050, as a result of demographic factors and pension design issues (Figure 15). Slovenia has particularly challenging demographic dynamics, with the projected doubling of the old age dependency ratio by 2050 one of the largest increases in Europe. The system dependency ratio (of pensioners to contributors), is also anticipated to increase from the relatively high 67 percent now, to 145 percent.

35. While the 2012 reforms to the pension system slowed the increase, this is only a temporary reprieve. The main measures in the reform include:

- A gradual increase in statutory retirement age to 65 for both men and women;
- A tightening in conditions for early retirement, by increasing the earliest permissible retirement age by 1 year on average, and slightly revising the list of eligible occupations;
- Introduction of early retirement penalties;
- Increasing from 19 to 24 years the period over which pensionable earnings are averaged in determining the entry pension; and
- Indexing benefits to a composite of wages and prices (60:40), and freezing indexation during 2012–15.

The bulk of the fiscal impact came from the freeze in indexation, contributing around 0.3 percent of GDP over its two year period. The other reforms are anticipated to have a modest long-term impact—in the range of 2 percent of GDP by 2050.

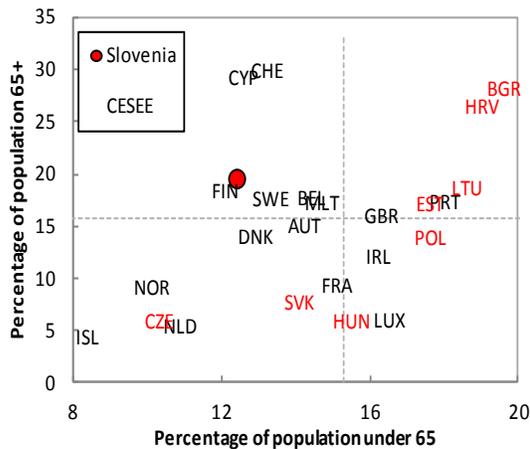
36. However a number of important features were not addressed in the reform, and could be considered by the working groups. These include:

- **Benefit indexation**, which despite recent changes remain generous by international standards, where benefits are most commonly linked more to inflation than wages.
- **The pension bonus**, a residue from the previous pension regulations in the republics of Yugoslavia, which represents 0.35 percent of GDP.
- **The tax treatment of pensions**, which is generous and includes a number of exemptions. These combined exemptions mean that only pensions exceeding 1095 per month (110 percent of the average wage) are subject to taxation, leaving 95 percent of pensioners not paying any tax.
- **Further tightening the incentives for early retirement**, which still result in a very high early retirement rate. This could be done by increasing the early retirement deduction, limiting early retirement to no more than two years prior to the statutory age of 65, and reducing non-contributory time recognition.

37. These and other potential reforms to the pension system could yield savings of 0.6 percent of GDP in the near term, and 2.6 percent of GDP by 2050. These options and costings are laid out in greater detail in 2015 Selected Issues Paper *Social Spending Reforms and Fiscal Savings in Slovenia*.

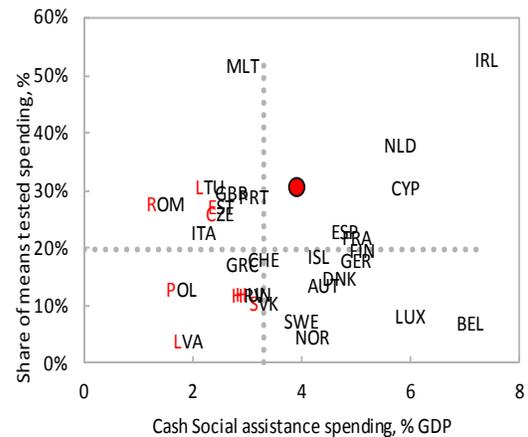
38. Unlike the pension system, social assistance spending appears to be more tightly targeted, resulting in relatively low poverty rates amongst under 65 population (Figure 16). By European standards, Slovenia has a relatively high proportion of means tested benefits (Figure 17). Nevertheless, these should be explored by the reviews, as some of the means testing still appears relatively loose.

Figure 16. Poverty Rates by Age Group



Source: EUROSTAT

Figure 17. Share of Means Tested Cash Social Benefits



Source: EUROSTAT

C. Recommendations

Recommendation 2.1 - Establish, staff and task working groups in education and social welfare, in addition to the existing health working group, to undertake program evaluations, identify a menu of savings options and high priority spending alternatives within their portfolios.

Recommendation 2.2 - Based on initial conclusions from the international benchmarking exercise, focus initial savings identification efforts on:

- **For Education:** raising student-teacher ratios and class sizes, particularly in schools where they are currently exceptionally low; and optimizing the school network with an eye to areas of overcapacity.
- **For Health:** strengthening primary health care, and developing an efficient provider payment system for hospitals.
- **For Social Welfare:** further reforms in the pension system related to benefit indexation, tax treatment of pensions and incentives for early retirement, and further strengthening means testing in other social assistance areas.

III. ESTABLISHING THE SPENDING REVIEW PROCESS

A. Lessons from Success and Failure

39. The more successful spending review processes have been those where:

- The objectives of the review were established at the outset;
 - Clear saving targets were provided to review teams;
 - A medium-term perspective has been adopted;
 - A decision making committee has been put in place to arbitrate disputes;
 - The review has been integrated into the annual budget processes; and
 - Sufficient time has been left to implement the reforms.
- Box 1 describes the spending review process undertaken in the Netherlands, while Box 2 highlights some of the pitfalls to avoid when designing the spending review process.

Box 1. Spending Review in the Netherlands

The Netherlands carried out a “Comprehensive Expenditure Review” in 2010. The government identified 20 policy areas and commissioned working groups to conduct spending reviews for each area. The working groups comprised representatives from the MoF, the Prime Minister’s Office, ministries, and external experts (e.g., the CPB Netherlands Bureau for Economic Policy Analysis). The working groups were chaired by senior officials not responsible for the policy being reviewed. They were supported by a secretariat in the Ministry of Finance and overseen by a committee of high-level officials from the central ministries. Uniform terms of reference establishing the guidelines and procedures for the review were developed by the MoF, and agreed by Cabinet.

A clear saving objective was specified at the outset, which required each working group to develop options capable of delivering at least a 20 percent reduction in spending or tax expenditures in the area under review, over a four-year period.

Working groups were responsible for generating a menu of saving options sufficient to meet the savings target. There was no right of veto within working groups on any policy issue being considered. The menu of savings options were provided to the Cabinet, which was responsible for taking final decisions. This process enabled the various options to be evaluated against each other.

The CER had a strong influence on the policy platform of Dutch political parties during the 2010 election and a significant proportion of the savings measures proposed by the reviews have subsequently been incorporated into the budget.

Box 2. Pitfalls to Avoid in Designing a Spending Review Process

- (i) **Not setting specific Ministry spending ceilings and savings targets at the start of the process, even if they are indicative:** The MoF must set the framework for a spending review by setting spending ceilings and associated savings targets (versus the baseline scenario) by line ministry that are consistent with the aggregate General Government spending target. These spending ceilings and savings targets can be **indicative** as the ultimate ceilings by ministry will result from the decision of the government policy-makers that will assess the savings proposals of the Working Groups. Without a specific spending ceiling to focus their discussions, the Working Groups will likely spend most of their time discussing spending pressures rather than structural, well-designed savings proposals, and ultimately horizontal consolidation measures will have to be proposed and decided at the last-minute to meet the fiscal target.
- (ii) **Allowing line ministry officials to use Working Group discussions to re-open their ministry's targets:** The work of the Working Group must not be distracted by discussions about the line ministry's indicative ceiling (and savings target) or on the amount of the savings already achieved by the ministry in previous years (and thus why the ministry's ceiling can't be met). First, setting the ceiling is not part of the mandate of the Working Group but of the government. Second, ministries will always choose the year that makes them look best in terms of savings already made, irrespective of whether that year representative or justified by past or international experience. On the contrary, if a ministry has already made large savings in the past, this may suggest its spending is significantly above historic levels and that there are further inefficiencies versus good practice.
- (iii) **Not challenging ministries' quantification of their baseline, spending pressures and measures (see Figure 18):** Ministries will inflate their baseline and spending pressures in order to have a buffer during the year, as well as the expected savings from the measures they propose. Ministry of Finance officials must challenge all line ministry projections, ensuring they are prudently quantified with (i) realistic assumptions that are clearly specified; (ii) any negative impact on tax revenues from cuts in spending items that are taxed or pay contributions (wages/pensions/benefits) being subtracted from the gross yield of the measure; (iii) an assessment of implementation risks given historic examples where possible. The MoF should also set a common methodology and presentation in order to ensure rigor and comparability.
- (iv) **Designing policies/measures based solely on the past experience in one's own country:** Line ministries will be tempted to propose as measures only small adjustments to existing policies based on their recent experience in their own country. The Ministry of Finance should seek to counter-propose bolder reforms in the policy areas proposed by the line ministries, based on international practices in countries with similar institutions, living standards and demographics. Using an international benchmarking exercise such as the one prepared for this report can be a useful tool in this regard.
- (v) **Over-estimating savings from measures that affect several entities that aren't tightly accountable to line ministries:** Savings that are spread across different entities, especially entities that are not always tightly monitored or controlled by the supervising ministry such as schools, universities, independent agencies or state-owned enterprises, need to be quantified very conservatively taking into account probable implementation delays. The savings from these measures should be broken down by entity and integrated into their individual budget ceilings. Ideally, the measures will be strengthened with legal/regulatory tools that enable the Ministry of Finance and/or the line ministry to implement compensatory measures if there are implementation delays that result in slippages.
- (vi) **Including too many administrative measures:** Measures to enhance government administrative efficiency (i.e., developing a single public procurement platform for all ministries) should be included as part of a spending review as a signal to the public that the government is committed to minimizing waste. However, these measures should be quantified very conservatively given international experiences that suggest that there are significant implementation risks, with most savings spread over the medium-term and ideally, any short-term savings included as a buffer on top of the measures needed to close the fiscal gap. These savings would be expected to account for no more than 5 percent of the structural fiscal consolidation package for the next year unless greater savings can be clearly demonstrated in the short-term.

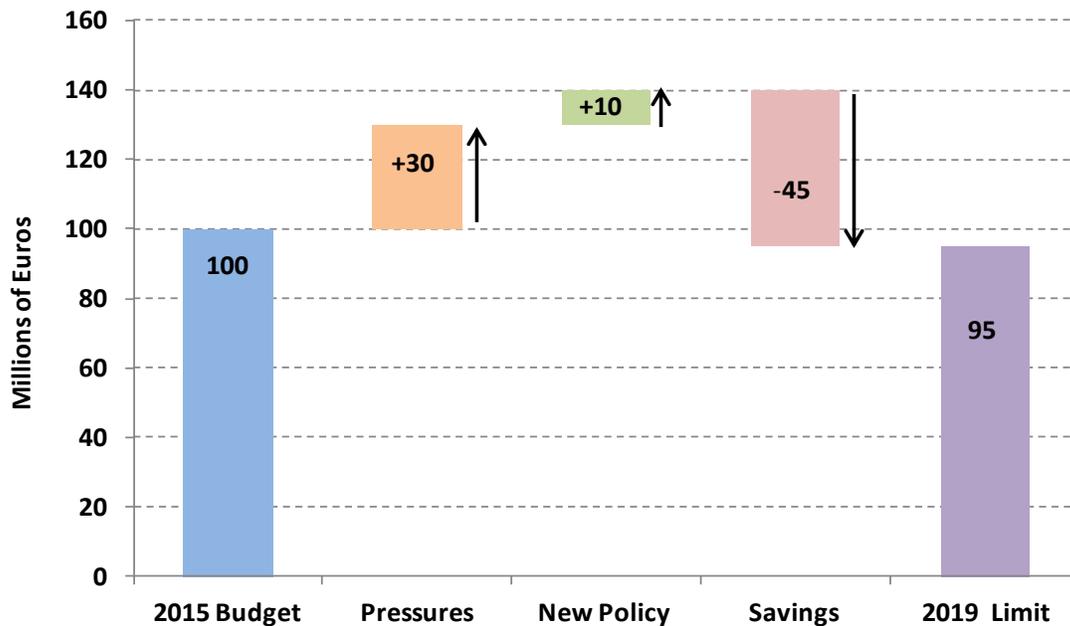
B. Establishing the Objectives of the Review Process

40. It is important that specific objectives be established and communicated at the outset. Ministers need to determine whether the primary focus on the review is to achieve an overall reduction in expenditure or be used as a mechanism for expenditure reprioritization. In both cases, the review will need to identify specific saving options, and, the experience from successful spending reviews is that strong agreement on the scale of the saving options is needed to drive the process. Some examples of savings targets adopted by other reviews are:

- *Canada:* The annual Strategic Review process required each agency reviewed to present saving options of at least 5 percent by year three from their lowest-priority, lowest-performing program spending.
- *France:* The Révision Générale des Politiques Publiques (RGPP) during 2010–11 set a target for a 10 percent reduction in non-salary administration costs by year three.
- *Netherlands:* The 2010 Comprehensive Spending Review required each review team to develop saving options capable of delivering at least a 20 percent reduction, over four years.

41. Allocating a specific savings target to each spending area ensures the review's effort is calibrated towards achieving the government's fiscal consolidation objectives. Without a target to anchor the exercise, there is a risk the review fails to identify specific and credible proposals. To focus the exercise, teams should be required to present a minimum amount of saving options. A common approach in successful review processes has been to set the target as a certain percentage reduction in the overall budget allocation to be achieved over a medium-term period (see Box 3). An additional way to incentivize spending ministries to put options forward is to allow them to retain part of the value of any expenditure cuts for other priorities within their sector's.

42. Targets for spending options should be set recognizing that numerous options will not go ahead. Thus, the menu for each spending reviews savings options should be considerably larger than the end savings target required for fiscal consolidation. As a guide, in Greece, around half of the options identified by reviews were either not adopted or were rejected by the constitutional court.

Figure 18. Measures and Pressures for an Indicative Program^{1/}

1/ The figure illustrates (i) the 2015 aggregate baseline budget estimate absent any changes in existing policy or other events that will be affected by; (ii) identified spending pressures that may need to be accommodated above the baseline estimate (i.e., agreements with public sector unions to restore previous wage cuts) as well as; (iii) new policy initiatives that the government would like to introduce, all of which impact on; (iv) the aggregate savings measures that need to be agreed to meet; (v) the medium-term fiscal objective set by the government.

43. For the spending review to have a lasting impact, it is important that it adopt a medium-term perspective and take account of spending pressures. As outlined in Chapter II, Slovenia faces a multi-year consolidation task with further savings required beyond 2016 to reach its medium-term fiscal objectives. In addition, there are significant spending pressures in the pipeline that will need to be contained or accommodated by reducing funding elsewhere in the budget. Savings will need to be sufficient to offset these spending pressures and any new policy measures the ministry plans to introduce (Figure 18). This means, the size of the savings measures probably needs to be significantly larger than the aggregate consolidation target and they will have to take account of the medium-term savings need as opposed to focusing on a single budget year.

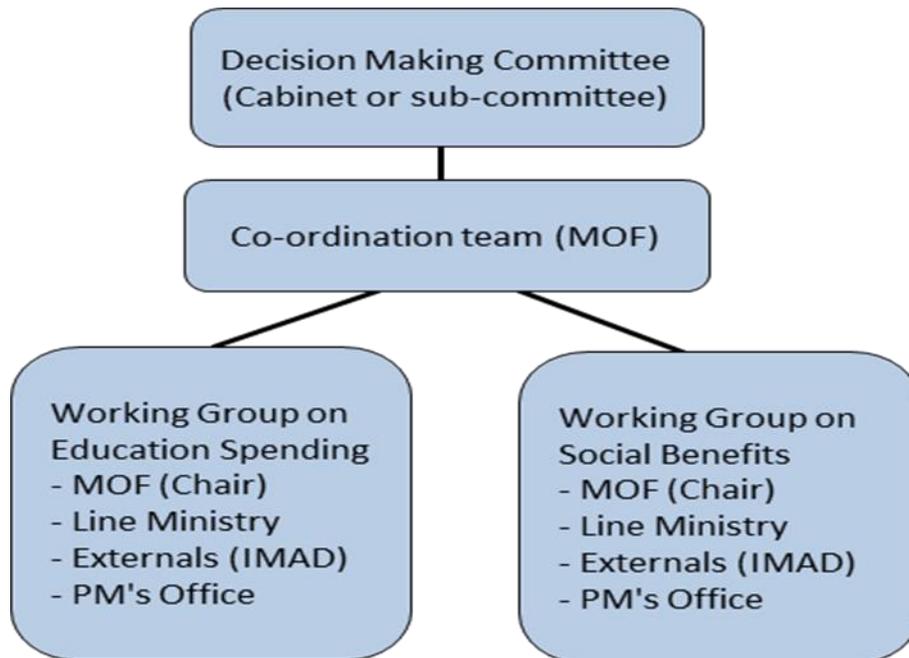
C. Structure for Successful Design, Review, and Implementation

44. The spending review that is currently being established in Slovenia should operate on two levels:

- A technocratic level, consisting of the two working groups that have been established (and are in the process of being formalized) to examine education and social benefit programs and identify saving proposals; and

- A policy making level, as to ensure that there is political buy-in to the process (Figure 19). The Working Groups are not decision making bodies. Once finalized, proposals will be presented to Ministers for review and decision.

Figure 19. Structure of Review Process



45. The formal decision making process for the review is yet to be determined, but is crucial to a successful outcome. In the absence of a formal mechanism to consider the review's finding in the context of the deficit-reduction task, it is likely that very few of the proposals will be adopted, a feature of previous efforts to deliver measures to achieve fiscal consolidation targets.³ Such an outcome will likely see the burden of deficit reduction continue to fall on horizontal cuts. Consideration should therefore be given to establishing an Expenditure Review Committee comprising a sub-set of Cabinet members to review and agree measures.⁴ The committee would review and assess proposals against each other, and in light of the alternatives that would be required to achieve the fiscal consolidation

³ The 2014 IMF Article IV report indicated that the authorities only implemented about a fifth of the original measures envisaged to support their fiscal consolidation effort and subsequently had to rely on one-off measures including large decreases in public investment spending.

⁴ Establishment of cabinet sub-committees to review proposed spending measures is a common feature of successful spending reviews in Australia, Ireland, and the UK, amongst others.

objective and agree decisions. The composition of such a committee would ultimately be a decision for the government.

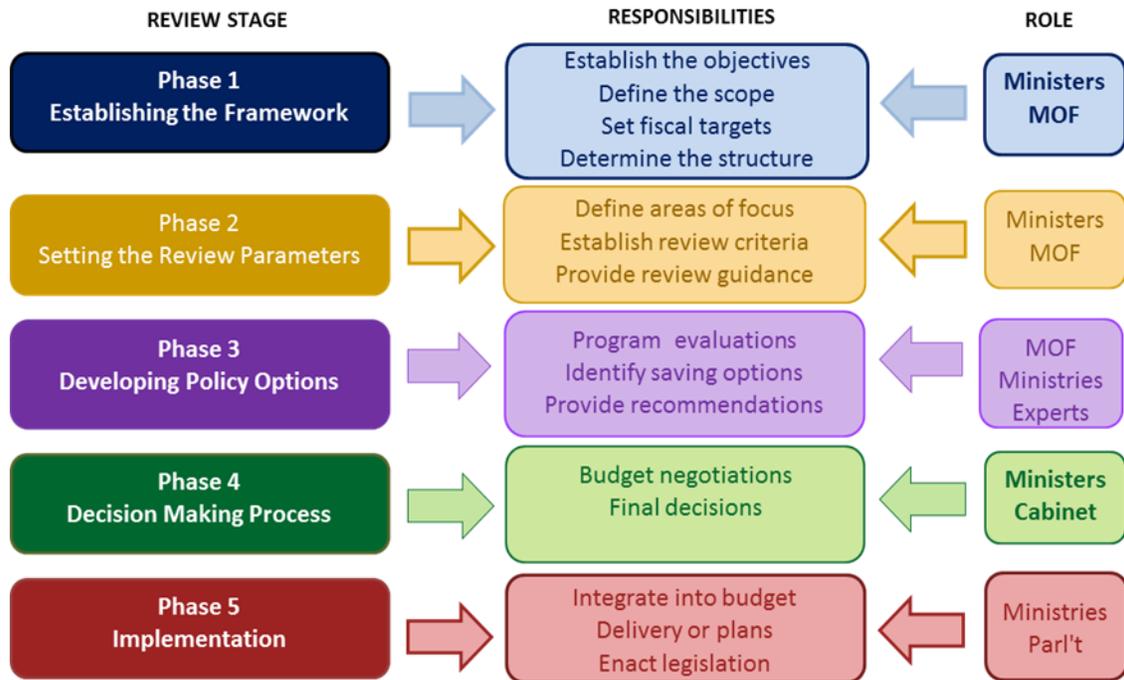
46. To be effective, working groups should have a broad representation and not be dominated by spending ministries. They should include representatives from the MoF, the line ministries responsible for the spending areas, and external experts (including, but not limited to IMAD). Representatives from the office of the Prime Minister could also be included to add additional weigh to the process. The working groups will be chaired by a senior official from the MoF (the Budget Director and her deputy). The terms of reference for the working groups should set out the objectives of the review and be agreed between the Minister of Finance, Minister for Education, Science and Sport, and Mister for Labor, Families, Social Welfare, and Equal Opportunity. A draft terms of reference is provided at Appendix I.

47. The MoF will need to play a central role in setting the parameters of the review and driving the process. The MoF should provide overall guidance to the working groups on: the timetable for the review; outputs of the review; setting the review criteria; and developing templates for policy submissions. Example templates for review submissions are included in Appendix II.

48. It is important that members of the working groups contribute fully to the process, cooperate and share information. Figure 20 provides a stylized illustration of the various phases of the spending review process and the key responsibilities and roles at each stage. The working group has primary responsibility for conducting phase three of the process—developing policy options.

- The MoF, in addition to setting the parameters and defining the procedures of the review, has an important role to play in challenging line ministries, ensuring technical consistency in policy costings, and testing the credibility of saving options. They will also be responsible for pulling all proposals and pressures together for presentation to ministers.
- Line ministries will need to play a key role in providing the detailed analysis and information on programs, spending trends and spending pressures, developing policy options along with the MoF and experts, and assessing the impacts of policy changes.
- External experts have an important role to play in challenging the status quo and bringing new policy ideas forward. In addition they can provide supporting analysis to inform the review's work.

Figure 20. Phases of the Review Process



49. The spending review should be integrated into the budget process. This will impose a very tight timeframe on working groups. If the review findings are to feed into the 2016 budget, saving options will need to be finalized by around mid-July 2015 to allow time for measures agreed at ministerial level to be fully developed and included in the multi-year budget allocations. Realistically, this timeframe appears to be very ambitious and it is unlikely that sufficient structural measures will be identified and agreed within this time frame to meet all of the needed savings in 2016. Therefore, the working groups will need to carry out further analysis to identify structural measures that can be included in the 2016 EU stability program and consequently the 2017 medium-term budget process.

D. Process for Identifying and Developing Saving Options

50. Given the tight timeframes, working groups should first agree the areas of policy to focus. There is merit in focusing first on those areas where there is a reasonable chance of delivering the savings required, for example, the largest or fastest growing programs or where the international expenditure benchmarking exercise has identified areas where there are potential inefficiencies.

51. An explicit set of review criteria should be developed to guide the search for savings. The review criteria should focus on: whether the goals of the program are aligned with the government's policy objectives; whether the program is meeting its objectives (effectiveness); and whether there is scope to deliver it at a lower cost (efficiency). Applying

these criteria can help identify low priority, ineffective programs that could be scaled back or eliminated or ineffective, high priority programs that should be re-designed. Given the time frame, the latter proposals would likely require further work to be undertaken beyond the review process.

52. Working groups should develop a menu of saving options to be considered by ministers. To aide decision makers in weighing the various trade-offs, each policy proposal should include the following information:

- The fiscal impact for the Budget and three forward years, with costings to be made using consistent methodologies and assumptions across programs;
- The public policy rationale for the proposal;
- The impact of the policy proposal on affected groups and any social, regional or economic consequences; and
- The legislative requirements, implementation arrangements (including whether the measure could be implemented as part of the 2016 Budget or requires further development), and the process for consultation if required.

The mission has provided an example template for policy proposals and an example template for decision making submissions with a hypothetical policy proposal (see Appendices III and IV).

53. Spending pressures should be identified and quantified. A consolidated list of spending pressures, detailing the fiscal impact over the budget and three forward years should be presented to ministers alongside saving options. Where there are significant cost pressures beyond the near-term horizon, these should also be made clear, and quantified where possible.

E. Legislative Requirements to Embed the Spending Review Process

54. The existing Public Finance Law (PFL) of 1999 (as amended) is the main legislative instrument surrounding the management of the public finances in Slovenia. The PFL is currently being reviewed and it is intended to present amendments to parliament in 2015 to complement a new Fiscal Rules Act, being proposed to support the constitutional fiscal rule voted into the constitution by a super majority of parliament in 2013, and coming into effect in 2015. The Fiscal Rules law will also transpose the other requirements of the EU fiscal compact into national legislation. The amendments primarily relate to the insertion of provisions to establish a fiscal council, supporting the fiscal rule, defining automatic

correction mechanisms in the event of fiscal slippage and the introduction of the principle of balanced structural budgets over the medium term.

55. Provisions to embed regular spending reviews within the budget process could be considered for inclusion in the planned 2015 amendments to the PFL. These amendments have been delayed pending adoption of the Fiscal Rules Act submitted to parliament in December 2014. Despite the urgency of adopting this legislation to ensure that Slovenia is fully compliant with EU Directives, consideration should be given to introducing a further amendment to the PFL to provide legislative underpinning to the concept of a regular spending review process. Including provisions requiring spending reviews to be carried out periodically would formalize the process as an integral part of the development of the medium-term budget framework. The process could be strengthened even further by provisions which require upgraded performance indicators on spending programs to be used to feed into that process (see Section F).

F. Improving the Quality of Program Performance Information

56. The spending review process provides a good opportunity to take a fresh look at the quality and relevance of existing performance information. This information is currently published along with the budget but is not likely to meaningfully inform the current review process, for reasons outlined below. However, any measures identified by the spending review teams and approved by government will need to be reflected in objectives and performance indicators set out in the annual program budget annexes submitted to Parliament.

57. A legislative requirement to regularly carry out spending reviews offers an opportunity to reexamine the underlying process of setting and gathering performance data to meaningfully contribute to future spending review rounds. The current structure and contents of performance related documents date from the 2010 budget review effort and first appeared in the 2011–12 Budget. However the budget decision making process remains primarily focused on line item inputs rather than performance, and the information in these documents is therefore largely ignored. Line ministries have essentially been left to prepare program objectives and set the indicator targets by themselves, with the MoF's input mainly limited to the format of the document.

Table 2. Program Objectives and Indicators – 2015 Budget

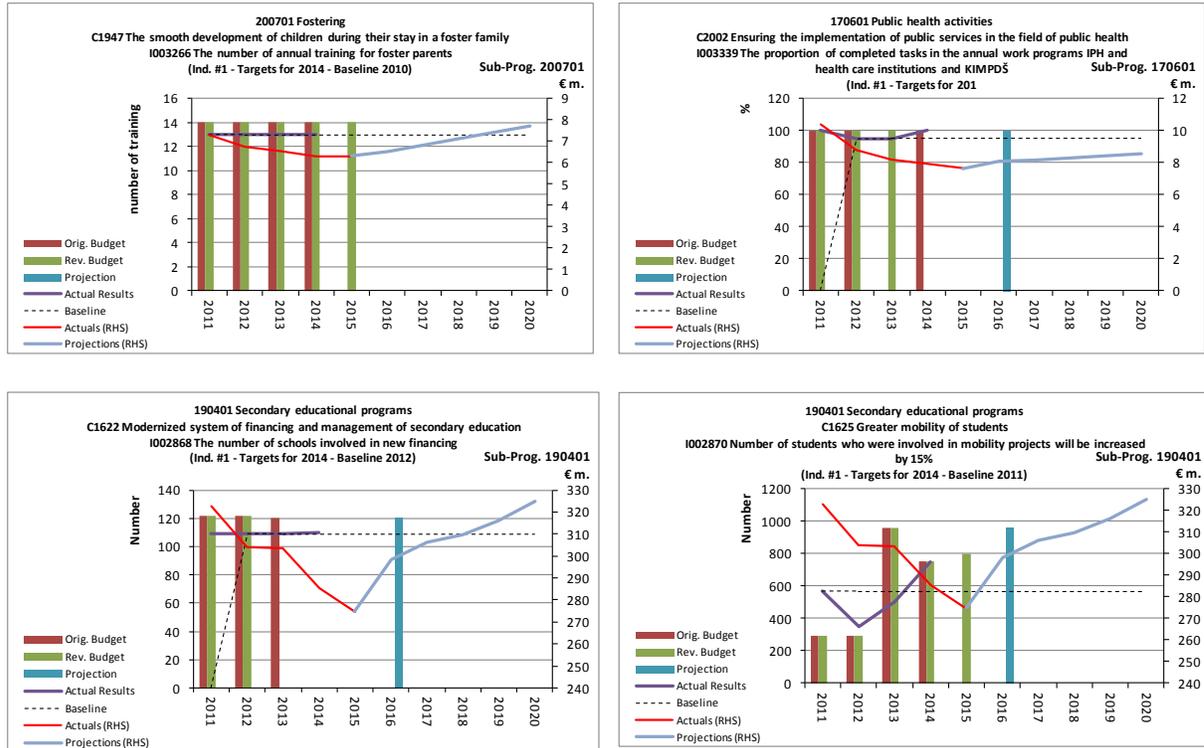
Policy Areas	Whole Budget: 1 to 24	Health (17)	Education and Sport (19)	Social Security (20)	Pensions (21)
Programs	116	7	9	9	1
Sub programs	303	13	28	18	1
<i>per program (max/avg/min)</i>		5 2 1	5 3 1	4 2 1	1 1 1
<i>Sub programs without objectives</i>		2	8	2	0
Objectives	1075	51	86	45	7
<i>Policy area level</i>		2	3	1	0
<i>Program level - total, max/min per program</i>		22 9 1	29 10 1	16 4 1	3
<i>Sub program level - total, max/min per sub program</i>		27 5 1	54 10 1	28 5 1	4
Indicators	5667	82	145	74	9
<i>Policy area level - total, max/min per objective</i>		7 4 3	9 4 2	5 5 5	0
<i>Program level - total, max/min per objective</i>		36 5 1	58 5 1	20 3 1	4 2 1
<i>Sub program level - total, max/min per objective</i>		39 3 1	78 6 1	49 17 1	5 2 1

Source: Ministry of Finance

58. Table 2 summarizes the number of objectives and indicators in the policy areas related to the current spending reviews. The high number of objectives and indicators suggests a less than strategic approach to the choice of performance data, making it difficult to get a clear sense of where the government's priorities are being focused in the upcoming budget.

59. Most of the indicators are either input focused—number of doctors, teachers, nurses—or output focused—number of patients treated, students trained. For example, of the 82 Health policy area indicators, 34 are input, 35 are output and 13, are outcome indicators. Outcome indicators would generally reflect medium-term policy objectives, while the output indicators will generally reflect usage or effectiveness of public services being provided.

60. An analysis of indicator targets over the last 5 years suggests that the need for closer attention to the choice, setting and monitoring of performance targets. This analysis shows that in many cases the target was already achieved at the outset. In some cases, the target was maintained despite cuts during the last few years, while in others the targets were reduced when funding was reduced. In a few cases targets actually increased despite funding cuts. In many cases, however, the baseline, target, and actual performance data is incomplete, indicating a less than systematic approach to the collection and monitoring of performance data. A few examples are shown in Figure 21. In brief, it is difficult to conclude much from the available performance information.

Figure 21. Sample of Published Performance Developments 2011–15

Source: Ministry of Finance

G. Recommendations

Immediate (1-3 months)

- **Recommendation 3.1** - The working groups for education and social benefits should be formalized as a priority, with representatives from MoF, the relevant agency responsible for programs under review, a representative from the Prime Minister's Office and external experts;
- **Recommendation 3.2** - A terms of reference for the Working Groups should be agreed and communicated outlining the objectives, responsibilities, review criteria, outputs and timetable for the review;
- **Recommendation 3.3** - The MoF should develop a template submission for spending review proposals (Appendices II and III can be used as a reference);
- **Recommendation 3.4** - Working groups should be provided with the minimum quantum of saving options to be identified, as soon as is practicable; and

- **Recommendation 3.5** - Formalize the decision making arrangements for the review and consider establishing an Expenditure Review Committee as part of this process, comprising key members of Cabinet, to consider the proposals developed by the working groups.

Short-term (3 months to 1 year)

- **Recommendation 3.6** – The working groups should continue to identify structural savings measures for inclusion in the 2016 EU stability program to ensure that the medium-term fiscal objective is met; and
- **Recommendation 3.7** – Consider including a provision in the Public Finance Act establishing a regular spending review process as part of the medium-term budget framework preparation process.

Medium-term (1-2 years)

- **Recommendation 3.8** – Rationalize the number of performance objectives and indicators and align them with the new objectives and measures established through the spending reviews.
- **Recommendation 3.9** – Review the format and contents of performance annexes submitted along with the budget to make them more informative and accessible to the public, and strengthen the ongoing monitoring of this data as an input into the budget.

IV. NEXT STEPS

61. Some of the key steps needed to launch a spending review process have been put in place but the institutional framework required at all of the phases of the process need to be firmly established from the outset. In addition, specific timelines and milestones need to be agreed at the outset of the process. Table 3 sets out an indicative action plan with suggested tasks, responsibilities and timelines to establish a formal spending review process in the short-and longer-term.

Table 3. Slovenia: Proposed Action Plan for the Ongoing Spending Review Process

	Task	Responsibility	Deadline
1. Design Phase	Formally appoint members of the working groups (Education and Social Benefits) ¹	Ministers of Finance, Education & Sport, and Labor, Family, Social Affairs & Equal Opportunities, PM's Office	Mid-May 2015
	Agree and issue the terms of reference for the working groups	Ministers of Finance, Education & Sport, and Labor, Family, Social Affairs & Equal Opportunities, PM's Office	Mid-May 2015
	Establish high-level Expenditure Review Committee of the Cabinet	Minister of Finance, PM's Office, Cabinet	Mid-May 2015
2. Analysis and Decision Phase	Commence meetings of the working Groups	Working groups	Mid-May-Mid-July 2015
	Finalize initial program evaluations	Working groups	Mid June 2015
	Finalize policy recommendations for 2016 budget	Working groups	Early July 2015
	Submit consolidated proposals for decision	Working groups, Budget Department	Mid-July 2015
	Decision on measures to adopt for 2016 medium-term budget framework and identify those measures that may need further analysis before being considered for inclusion in the 2016 EU Stability Program.	Expenditure Review Committee of the Cabinet	End-July 2015
3. Implementation Phase	Prepare budget submissions based on measures adopted by Expenditure Review Committee	Ministries of Health, Education & Sport, and Labor, Family, Social Affairs & Equal Opportunities	Aug-Sept 2015
	Develop and implement communication strategy detailing rationale behind chosen spending measures for 2016 budget	Ministries of Finance, Health, Education & Sport, and Labor, Family, Social Affairs & Equal Opportunities, Government Communications Unit	Aug-Sept 2015
	Prepare changes to the presentation of performance information in the 2016 budget documentation	Budget Directorate	August-Sept 2015

Table 3. Slovenia: Proposed Action Plan for the Ongoing Spending Review Process (Concluded)

	Task	Responsibility	Deadline
	Include measures in 2016 Budget proposals	Budget Directorate	Sept-Oct 2015
	Ensure 2016 spending measures are fully reflected in 3 sectors' performance annexes	Budget Directorate and Line Ministries	Oct 2015
4. Second Design Phase	Prepare formal guidance notes for future spending review teams.	Budget Directorate	Nov 2015
	Prepare an action plan to resume spending reviews to identify measures in agreed policy areas for the 2017-2019 budget	Budget Directorate and PM's Office	Nov 2015
	Approve Action Plan and working groups for 2017-2019 Expenditure Reviews	Cabinet	Nov 2015
	Reconvene working groups to review spending for 2017-2019 budget	Ministry of Finance, relevant sectoral Ministries, PM's Office	Dec 2015
5. Second Analysis and Decision Phase	Finalize recommendations for spending measures for 2017-2019 budget	Working Groups	Feb 2016
	Approve measures	Expenditure Review Committee of the Cabinet	Mar 2016
	Include measures in 2016 EU stability program	Budget Directorate, Cabinet	End-Apr 2016
6. Second Implementation Phase	Include Measures in 2017 Budget Documentation	Budget Directorate	Oct 2016
7. Medium-term Measures to Embed	Amend provisions of PFL law to embed periodic spending reviews	Ministry of Finance and PM's Office	Oct 2015?
	Review programs and performance indicators on existing programs	Budget Directorate and Line Ministries	2016-2017

1/ It may be productive to include the IMF PFM regional advisor as an observer.

62. To meet the ambitious timelines to realize the savings measures to be incorporated in the 2016 budget will require a disciplined approach. To guide the initial work of the spending review Table 4 also lays out in more detail some guidance on how the work plan for the Working Groups could be configured during the initial spending review to identify measures for the 2016 budget.

Table 4. Slovenia: Detailed Guidelines for Tasks of the Working Groups (WGs)

Task	Timeline
Formal establishment of WGs, ideally with indicative aggregate spending ceilings per Ministry in line with Stability Programme target scenario.	May 15, 2015
WGs to (i) discuss details on programs, funding and spending trends provided by Line Ministries for the period 2016-2019; (ii) identify programs whose performance will be evaluated in context of the spending review to deliver the savings.	May 22, 2015
WGs to (i) finalize the quantification of spending pressures and the savings target; (ii) discuss initial findings on program evaluations (see Appendix III, program submission template); and (iii) canvas the policy and saving options to be developed.	May 29, 2015
WGs finalize program performance evaluations.	June 5, 2015
WGs discuss savings policy proposals including quantification assumptions provided by line ministry prior to the WGs meeting.	June 19, 2015
WGs discuss feedback sent (prior to the meeting) by the Ministry of Finance, Experts and IMF (if requested) on the line ministry's savings proposals.	June 26, 2015
WGs finalize the savings proposals and identify which of those are able to be implemented for the 2016 Budget and those that require more time for implementation or further work and could be incorporated into next SGP/Budget.	July 3, 2015
WGs finalize documents summarizing savings proposals and send to Expenditure Review Committee.	July 10, 2015
Decision on measures proposals by Expenditure Review Committee.	July 24, 2015
MoF sends binding spending ceilings to line Ministries for preparation of 2016 Budget.	July 31, 2015

Appendix I. Terms of Reference for 2015 Spending Review Working Groups, May 2015

Outline

The 2015 Expenditure Review process, which has been established, at the behest of the Minister of Finance, will examine programs within the education and social benefit portfolios to determine whether they are aligned with the government's policy objectives, assess whether they are being delivered effectively and efficiently, and identify potential savings measures to be incorporated in the 2016 Budget to help in meeting the governments medium-term fiscal objectives.

The Review will be undertaken by two working groups consisting of representatives from the Ministry of Finance, the agencies responsible for the programs under review, and independent experts. Ministries will exchange and share relevant information with the Working Groups. Each working group will be chaired by a senior official in the Ministry of Finance with relevant expertise.

Coordination of the Review will be undertaken by the Budget Directorate in the Ministry of Finance.

Tasks

- (i) The Review will examine how well the current set of government programs in the education and social benefit portfolios support the Government's overall policy objectives.
- (ii) The Review will identify recent spending trends and forthcoming spending pressures in education and social benefits that will impact the budget over the short and medium-term in the absence of policy change.
- (iii) The Review will assess and evaluate program performance having regard to:
 - a. How well the objectives of the program are aligned with the government's policy priorities;
 - b. Available evidence on the performance of the program, including how well the program meets its policy objectives and its cost-effectiveness;
 - c. Whether there is scope to improve the efficiency of the program through its design, service delivery and/or simplifying administrative arrangements;

- d. Whether there is scope to better target the program to meet the government's policy objectives;
- e. Whether there is scope to consolidate lower priority programs and/or remove duplication.

(iv) The Review will identify a menu of potential multi-annual savings measures [equivalent to x percent of portfolio spending/GDP] to assist in the Government's medium-term consolidation task and/or to realign funding towards higher priority programs, in the context of the 2016 budget. The Review may also identify more effective measures to achieve the government's objectives within the same portfolio utilizing up to the equivalent of [half] of the identified savings.

(v) Where the Review identifies potential measures, it will provide supporting analysis and information around financial implications, a policy description, policy rationale, information on effected groups, implementation arrangements and legislative requirements.

(vi) Working groups will deliver their recommendations to Government by July 15, 2015 to help inform the development of the 2016 Budget. These recommendations will be informed by detailed program evaluation submissions based on the above criteria (a template for submissions is attached) and will include a summary table of spending pressures and policy reform options.

Timeline

The timeline for the Working Groups will be as follows:

- a. [By mid-May] identify program cost pressures over the period 2016-19;
- b. [By mid-June] finalize program evaluations;
- c. [By early July] finalize policy recommendations;
- d. By [mid-July] submit recommendations to Government for consideration.

Appendix II. Example Program Submission Template

PROGRAM NAME

Sub-program name

Agency: < >

Resourcing:

	2015 Baseline (€ '000)	2016 Budget (€ '000)	2017 FY1 (€ '000)	2018 FY2 (€ '000)	2019 FY3 (€ '000)
Programme expenditure:	0.0	0.0	0.0	0.0	0.0
Administrative expenditure:	0.0	0.0	0.0	0.0	0.0
Payroll expenditure:	0.0	0.0	0.0	0.0	0.0
Total resourcing:	0.0	0.0	0.0	0.0	0.0
Staffing level ('000)					

I. BACKGROUND AND ASSESSMENT

Programme description and rationale:

- Provide a description of the existing program (include details of when it was introduced and recent amendments if applicable).
- What is the public policy rationale?
- What are the program objectives and outputs?

Background (if required)

- Have there been any previous program evaluations undertaken? If so, what were the recommendations and were they implemented.

Benchmarking, trends, and pressures:

- Outline recent trends in program expenditure and drivers;
- Provide details of short and medium-term cost pressures;
- Summarize relevant benchmarking of program parameters and outcomes.

Programme evaluation:

- a. Alignment:
 - Is the program aligned with the Government's policy priorities?

b. Effectiveness:

- How well does the program meet the policy objectives?
- Are there other means to achieving these objectives?

c. Efficiency:

- Can specific steps be taken to improve cost effectiveness?
- Is there scope to improve service delivery or simplify administrative arrangements?
- Can the program be better targeted?
- Is there scope for outsourcing or engaging a non-state provider at lower cost?
- Is there overlap or duplication with other government programs? Is there scope for rationalization?
- Is there scope to introduce (or increase) user-charges or co-contributions?

II. POLICY PROPOSAL(S)

PROGRAM NAME

Sub-program name

Agency: < >

Option 1: [Title]

<Describe proposed reform>

Financial Implications

	2016 (€ '000)	2017 (€ '000)	2018 (€ '000)	2019 (€ '000)
Change in programme expenditure:	0.0	0.0	0.0	0.0
Change in administrative expenditure:	0.0	0.0	0.0	0.0
Change in payroll expenditure:	0.0	0.0	0.0	0.0
Total change in resourcing:	0.0	0.0	0.0	0.0
<i>Change in staffing levels ('000)</i>				

Policy rationale:

<Summarise policy case for the reform>

Impact:

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

Implementation arrangements:

- How much time is required for implementation?
- Is legislative change required?
- Is negotiation with third parties required?
- Are there impacts on departmental resourcing?

Consultation:

- Is further consultation required within government or with third parties? If so detail the recommended process.

Appendix III. Example Decision Making Template

PROGRAM

Budget Impact (\$m) cost (-) / saving (+)	2015 Baseline	2016 Budget	2017 FY1	2018 FY2	2019 FY3	Total	Recommendation
Option A – Summary of policy change							[Insert]
Option B – Summary of policy change							
Option C – Summary of policy change							
<i>Memo: Total resourcing</i>							

- Policy Description:** [Describe policy proposal]
- Public rationale:** [Provide public policy rationale for policy proposal]
- Who will be affected:** [Detail impact of policy change: who will be impacted; the number impacted; the financial impact on those affected; any regional or sectoral impacts.]
- Other sensitivities:** [Identify other sensitivities e.g. Are there any adverse social / economic consequences of the change? Is the policy change inconsistent with previous government policy commitments? Are there consequences for other programs?]
- Implementation:** [Legislative change will / will not be required. When will legislation need to be implemented by? Does the policy change require consultation with third parties prior to implementation?]
- Likely third party reaction:** [Detail stakeholder reaction: are there any lobby groups/think tanks/institutions who will advocate for/strongly oppose the change]

DRAFT– SAVING DECISION TEMPLATE

Appendix IV. Example of a Policy Proposal Decision Making Submission

SOCIAL BENEFITS – FAMILIES – CHILD ALLOWANCE

Budget Impact (€ millions) cost (-) / saving (+)	2015 Current	2016 Budget	2017 FY1	2018 FY2	2019 FY3	Total	Recommendation
Option A – Change the income taper rate	0	6.5	6.6	6.7	6.8	26.5	[Insert]
Option B – Tighten the means test	0	13.7	14.0	14.2	14.4	56.3	
Option C – Pause indexation for four years	0	0.5	1.5	2.5	3.6	8.0	
<i>Memo: Total current resourcing</i>	65.9	66.4	67.5	68.6	69.7		

Policy Description:

Option A reduces the benefit to those with income per family member above 35 percent of the average wage. Option B restricts the benefit to those with income per family member of less than 55 percent of the average wage (€545 p/m). The means test currently is set at the average wage (€990 p/m). Option C continues the pause on indexation for four more years from 2016.

Rationale:

Option A and B ensures that the child benefit allowance is targeted to those who need it most.

Who will be affected:

Currently around 200,000 families benefit from the Child Allowance. Option A reduces the benefit for the 64,500 families with income above 35 percent of the average wage by between €5 to €14 euros per month. Option B eliminates the benefit entirely for families with average income above 55 percent of the average wage (around 44,650 families). The impact ranges from a loss of around €23 to €35 in benefits per month. Under Option C the average family would forego around €4 a month after four years.

Other sensitivities:

Reducing the child allowance may be perceived as discouraging households from having children and being counter to the government’s policy objectives.

Legislative requirements:

Legislative change will be required.

Implementation:

Legislation will need to be passed by November 2015 to allow payment schedules to be adjusted for the 2016 calendar year.

Third party reaction:

The amendment will be strongly opposed by Social Welfare groups.

OPTION 1: Change in income taper rate

Income per family member as a percent of average wage RS	Amount of child allowance for each child (€/per month)								
	Current Schedule			Revised Schedule			Change in benefit		
	1st child	2nd child	3 or more	1st child	2nd child	3 or more	1st child	2nd child	3 or more
up to 15%	114.85	126.33	137.83	114.85	126.33	137.83	0.00	0.00	0.00
15% to 25%	98.19	108.55	118.84	98.19	108.55	118.84	0.00	0.00	0.00
25% to 30%	74.83	83.65	92.42	74.83	83.65	92.42	0.00	0.00	0.00
30% to 35%	59.03	67.35	75.83	59.03	67.35	75.83	0.00	0.00	0.00
35% to 45%	48.27	56.33	64.33	43.44	50.70	57.90	-4.83	-5.63	-6.43
45% to 55%	30.58	38.28	45.93	24.46	30.62	36.74	-6.12	-7.66	-9.19
55% to 75%	22.94	30.58	38.28	16.06	21.41	26.80	-6.88	-9.17	-11.48
75% to 99%	19.97	27.63	35.28	11.98	16.58	21.17	-7.99	-11.05	-14.11
100+	0	0	0	0	0	0	0.00	0.00	0.00

OPTION 2: Change in the means test

Income per family member as a percent of	Amount of child allowance for each child (€/per month)								
	Current Schedule			Revised Schedule			Change in benefit		
	1st child	2nd child	3 or more	1st child	2nd child	3 or more	1st child	2nd child	3 or more
up to 15%	114.85	126.33	137.83	114.85	126.33	137.83	0.00	0.00	0.00
15% to 25%	98.19	108.55	118.84	98.19	108.55	118.84	0.00	0.00	0.00
25% to 30%	74.83	83.65	92.42	74.83	83.65	92.42	0.00	0.00	0.00
30% to 35%	59.03	67.35	75.83	59.03	67.35	75.83	0.00	0.00	0.00
35% to 45%	48.27	56.33	64.33	48.27	56.33	64.33	0.00	0.00	0.00
45% to 55%	30.58	38.28	45.93	30.58	38.28	45.93	0.00	0.00	0.00
55% to 75%	22.94	30.58	38.28	0.00	0.00	0.00	-22.94	-30.58	-38.28
75% to 99%	19.97	27.63	35.28	0.00	0.00	0.00	-19.97	-27.63	-35.28
100+	0	0	0	0	0	0	0.00	0.00	0.00