

Institutionalising Spending Reviews

Experiences from OECD countries

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Why spending reviews matter?

- Public finances face **sustained pressures across countries**
 - > High and persistent public debt levels
 - > New emerging priorities (defence, climate transition, health)
 - > Demographic changes (increasing pension and healthcare expenditures)
- Need to improve the **quality, effectiveness, and efficiency of public spending.**
- However, a significant share of **expenditure is embedded in baseline appropriations**
- Traditional budgeting is often incremental and **focuses on marginal changes** rather than the full stock of expenditure
- This is where spending reviews come in.



Spending reviews defined

What are spending reviews?

- > Spending reviews are tools for systematically analysing the government's **existing expenditure**.
- > They provide governments with means to support the **sustainability of public finances**.
- > Formal procedure where **the Ministry of Finance and line ministries work together**.

Purposes of spending reviews

- > Enabling the government to manage the **aggregate** level of expenditure
- > Identifying **savings** or **reallocation** measures
- > Improving **effectiveness** within programmes and policies



Guiding principles for effective spending reviews

- > **Political leadership** and support are crucial to **determine the objectives and scope** of the review as well as to **ensure cooperation** across departments and **adopt the recommendations**.
- > The **Ministry of Finance is the owner** of the spending review process.
- > Defining a **clear savings target** can help focus the review.
- > Spending reviews should be clearly and directly **linked to the budget process**, decisions from the review should be adopted in the next budget.
- > The spending review **report and decisions should be made public** to promote transparency and accountability.
- > In some cases, the implementation of spending review **recommendations may need to be monitored**



Identify distinct political and public service roles

> Political leadership provides the mandate and ensures buy-in

- > Political leadership is particularly important **at the beginning**, where the objectives and scope of reviews are set, and **at the end**, where final decisions on adopting recommendations are made.
- > *Ensure spending reviews cover a **significant share** of the budget and address topics that are **key priority areas** of the government.*

> Public servants carry out spending reviews

- > Public servants prepare the analyses and scenarios for a spending review and implement the recommendations adopted from spending reviews.
- > *Important to build up expertise to carry out spending reviews both in line ministries and at the ministry of finance*

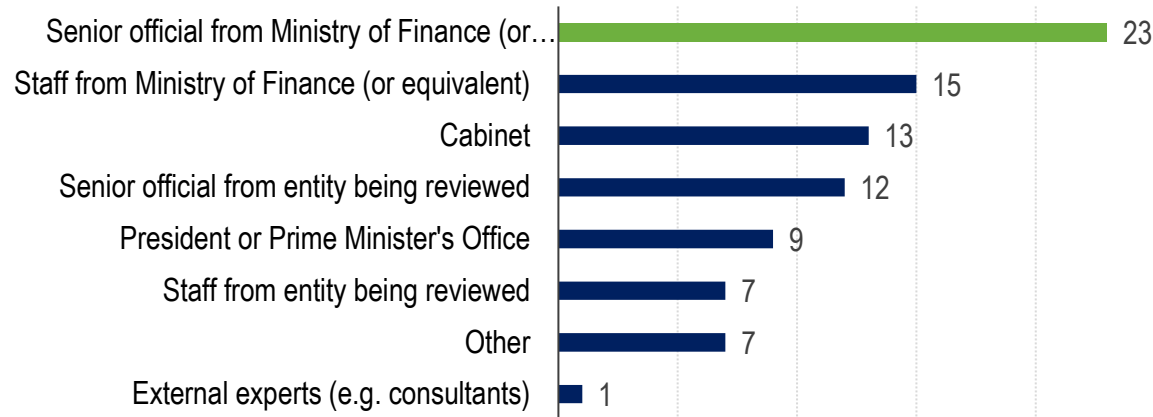
Roles of different types of stakeholders

Political leaders	Public servants
<ul style="list-style-type: none">• Aligning the SR process with the strategic objectives of the government• Suggesting and approving review topics• Approving the terms of reference• Providing the mandate for conducting the review• Formally adopting recommendations from the final spending review report• Ensuring the SR decisions feed into the budget process	<ul style="list-style-type: none">• Convening a steering group to oversee the spending review• Convening a working group to prepare the analyses and draft report(s)• Providing analytical capacity and relevant expertise• Preparing the terms of reference and guidance materials• Implementing and monitoring the decisions from the spending review

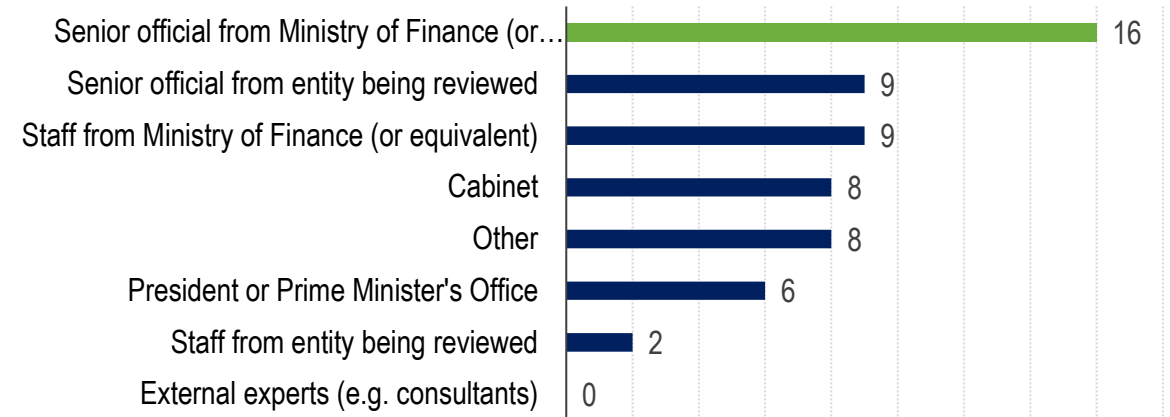


Political leadership is involved at the start and end of the review process

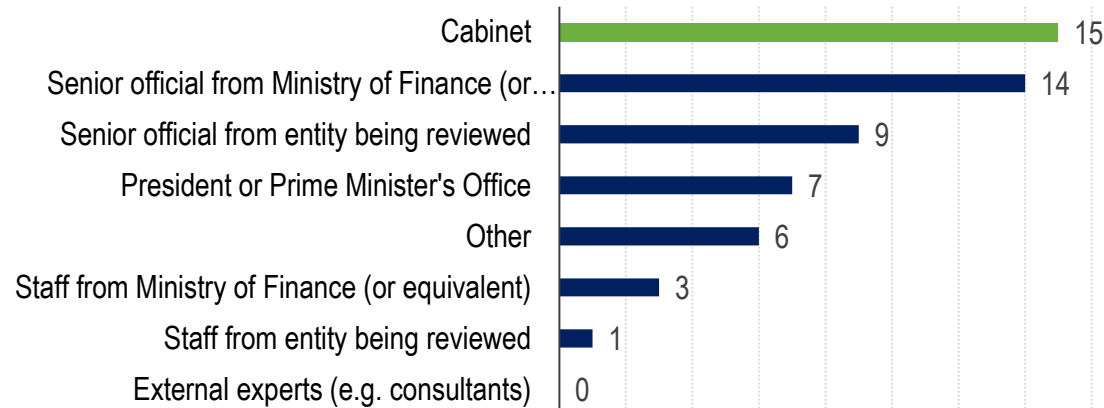
Determining objective and scope of each spending review



Approval of Terms of Reference



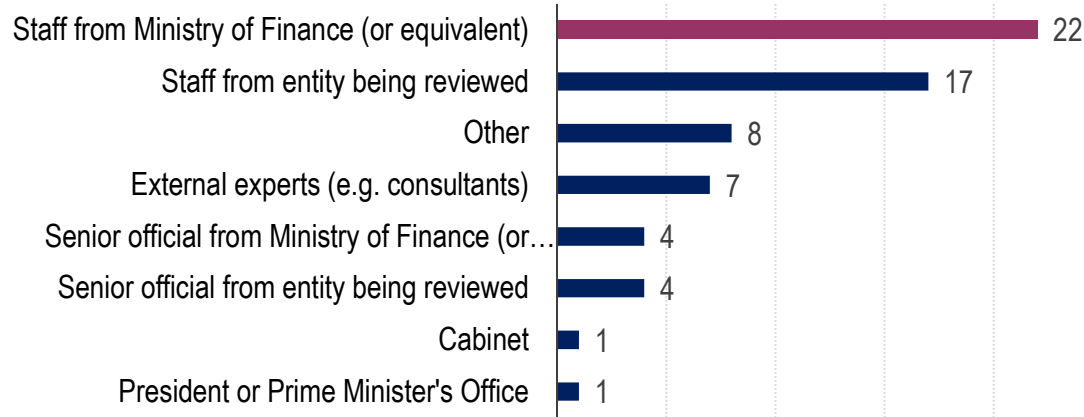
Final decision on adopting spending review recommendations



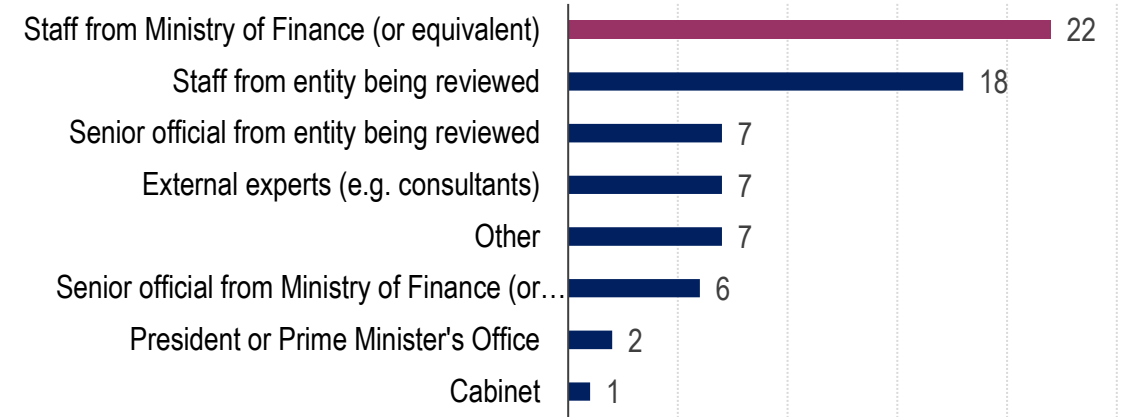


Civil servants conduct the review and implement its recommendations

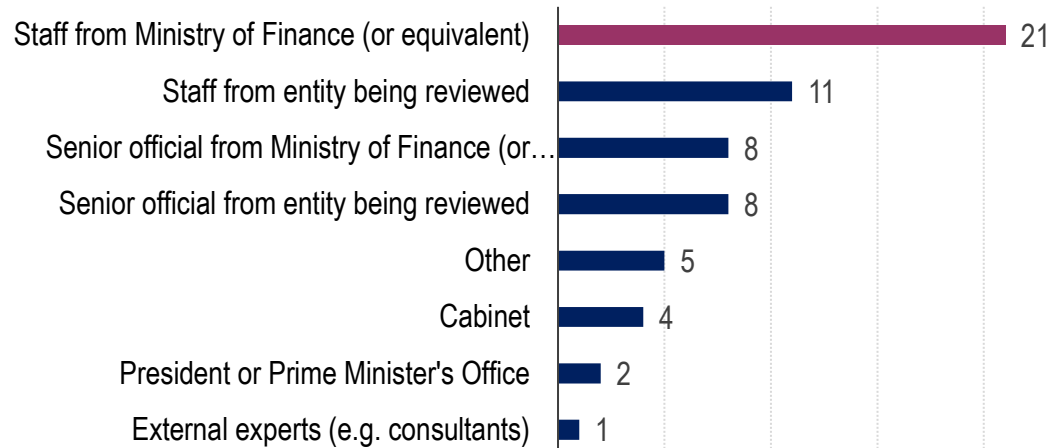
Prepares analysis



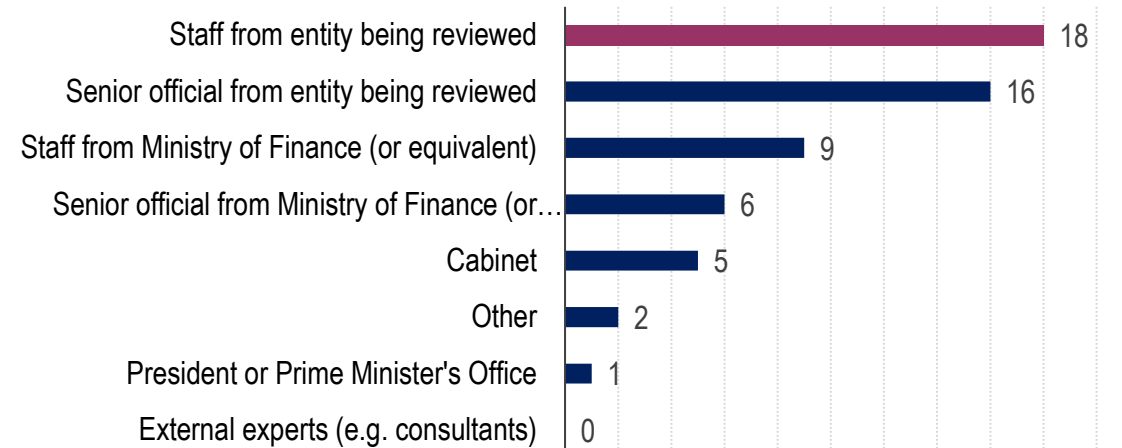
Prepares recommendations



Monitoring and follow-up



Implementing spending review decisions





Establish clear governance arrangements

- > **Robust governance arrangements ensure the resilience and independence of the spending review process**
 - > The Ministry of Finance and line ministries have specific roles in the review process
 - > **Steering groups** provides guidance and acts as a filter between the operational and political levels
 - > **Working groups** analyse spending review topics and prepare recommendations
 - > *Incentives can affect the level of commitment for a spending review*
 - What to do with the savings?



Summary of responsibilities in the SR process

	MoF	Line ministries	Cabinet	Others?
Responsibilities	<ul style="list-style-type: none">• coordinates the SR process.• jointly conducts the analysis with relevant line ministries in the working group• provides methodological guidance and ensures technical quality• ensures the link with the budget	<ul style="list-style-type: none">• Provide sectoral expertise, data and evidence• Play an important analytical role within the working group• Jointly develops policy and savings options with the MoF in the working group• Are responsible for implementing the results.	<ul style="list-style-type: none">• approves the Terms of Reference• approves the final spending review report• adopts recommendations from the spending review	<ul style="list-style-type: none">• State Audit Office• Policy evaluators• External consultants• Academia, NGOs...



Common governance structure of a spending review

Cabinet agrees on terms of reference (incl. objectives, scope, target, participants...)

1

CABINET OF MINISTERS

2

STEERING COMMITTEE
Chaired by the Ministry of Finance

3

WORKING GROUP
Jointly chaired by the LM and MoF

6

Cabinet adopts recommendation from the report, they will be included in the next budget.

5

The steering committee reviews and approves the spending review report

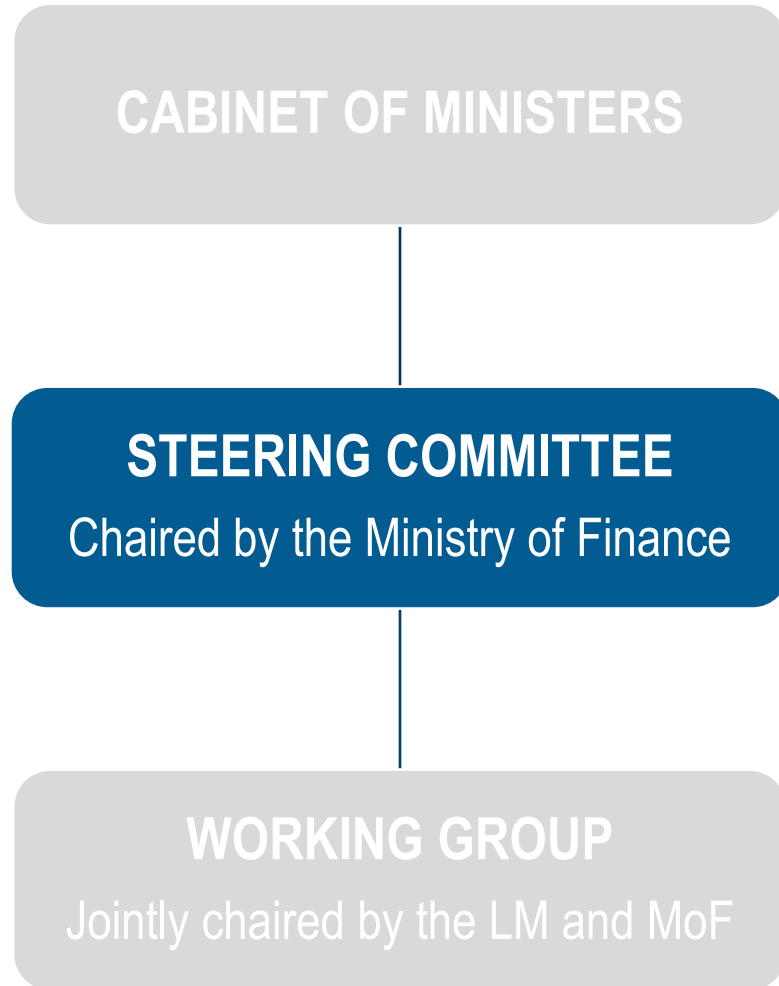
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The working group prepares the spending review report with policy/savings options

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

The working group conducts the analysis, meeting regularly

>> Composition of the steering committee



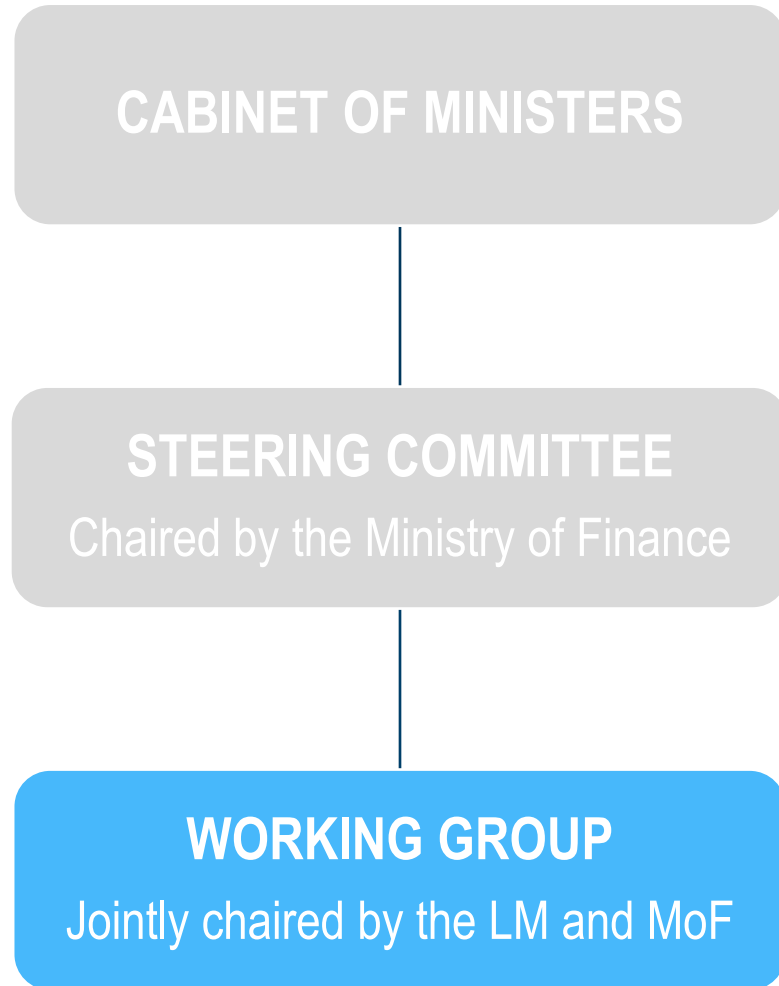
The steering committee:

- > Chaired by the Minister of Finance
- > Includes the Minister of the participating LM
- > Senior officials from the MoF
- > Senior officials from participating line ministries

The steering committee meets regularly (once every one or two months).

It acts as a filter between the political and operational levels, ensuring the independence of the SR process

Composition of the working group



The working group is composed of:

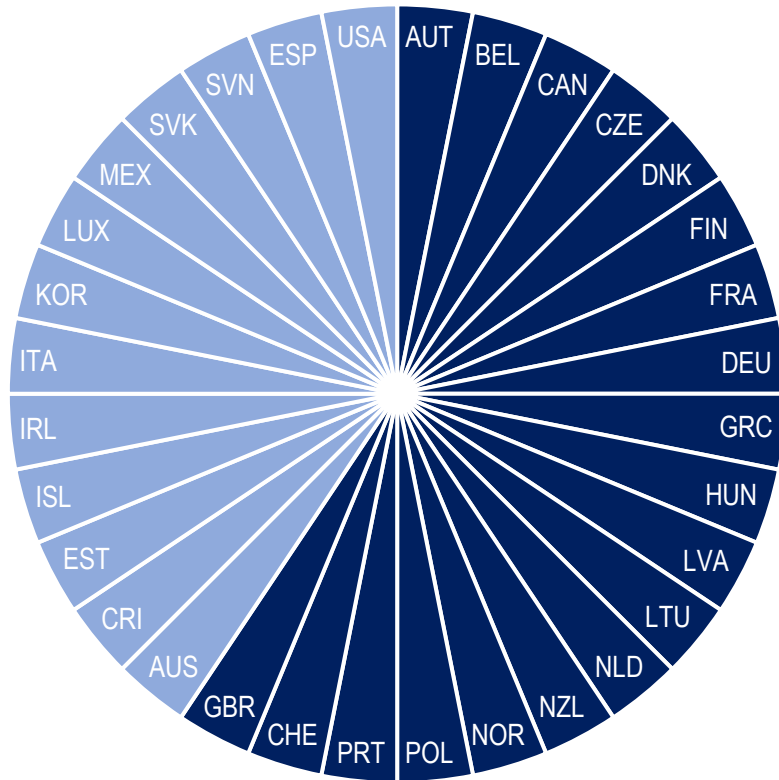
- > Staff from the MoF
- > Staff from participating line ministries (in-depth knowledge, access to stakeholders and implementation)
- > External experts (optional)

It meets regularly (at least once a month)



Most OECD countries use both steering committees and working groups

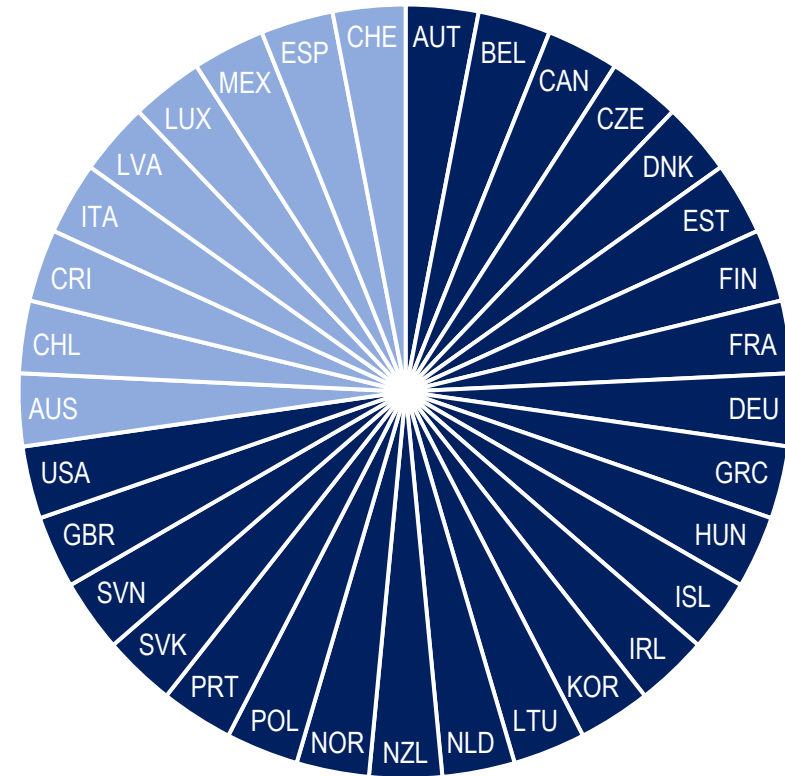
Steering committee for every spending review



● **No**
13 countries, 39%

● **Yes**
19 countries, 61%

Working Group for every spending review



● **No**
9 countries, 24%

● **Yes**
24 countries, 76%



Terms of Reference help ensure buy-in from line ministries

- > The spending review process should start with **Terms of Reference**
- > The terms of reference are prepared **jointly by the MoF and participating line ministries**
- > This joint preparation helps **create buy-in and ownership** over the SR process for line ministries
- > Terms of reference outline:
 - > The **review topic**, what's in scope and out of scope
 - > The **specific objectives** of the review
 - > The **savings target** when relevant

Developing Terms of Reference

Objective

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

Scope

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

Tasks

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

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

Organisation

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

Timeline

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



Terms of Reference

I. Objective

II. Scope

III. Tasks

IV. Organisation

V. Timeline

Template for Terms of Reference: objective

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

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

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

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



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

Country	Review	Target
Canada	Comprehensive Expenditure Review (2025)	Organisations to provide proposals for savings of up to 15% of their review base by 2028-29 and ongoing. 2% target for priority areas like defence and public safety.
Denmark	Spending Review of Police and Prosecution Authorities (2025)	1.1 billion DKK, corresponding to 2% of the cost base
Netherlands	IBO	General rule: identify at least one option for a 10-20% reduction in spending over the next four years.

Template for Terms of Reference: scope

I. Objective

II. Scope

III. Tasks

IV. Organisation

V. Timeline

The scope of the spending review is:


[budget item/activity/programme/sub-programme].

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

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

Template for Terms of Reference: tasks

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




Examples of tasks:

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

Template for Terms of Reference: organisation

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



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

The working group will be chaired by a senior official in the [Ministry of ...]. The working group is supervised by a Steering Committee, which will approve the final report. The review process is coordinated by the [insert team name] in the Ministry of Finance.

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

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

Template for Terms of Reference: timeline

I. Objective

II. Scope

III. Tasks

IV. Organisation

V. Timeline



- I. By [insert date], finalise the analysis, indicators, and benchmarking that will be used to inform saving proposals.
- II. By [insert date], finalise policy options and identify those that can be implemented for the [20XX] budget and those that require further analysis.
- III. By [insert date], submit the preliminary report to the steering committee.
- IV. By [insert date], submit the final report to the cabinet.



Spending review results must feed into the budget process

> Alignment with the budget process

- > Spending reviews should be systematically integrated into the preparation of the government's budget.
- > *Spending reviews should be carried out on a regular basis so that they are seen as a regular part of the budget process*

> Alignment with medium-term frameworks

- > A medium-term horizon can improve the effectiveness of spending reviews.
- > *Strong and reliable multi-annual budget baselines are important*

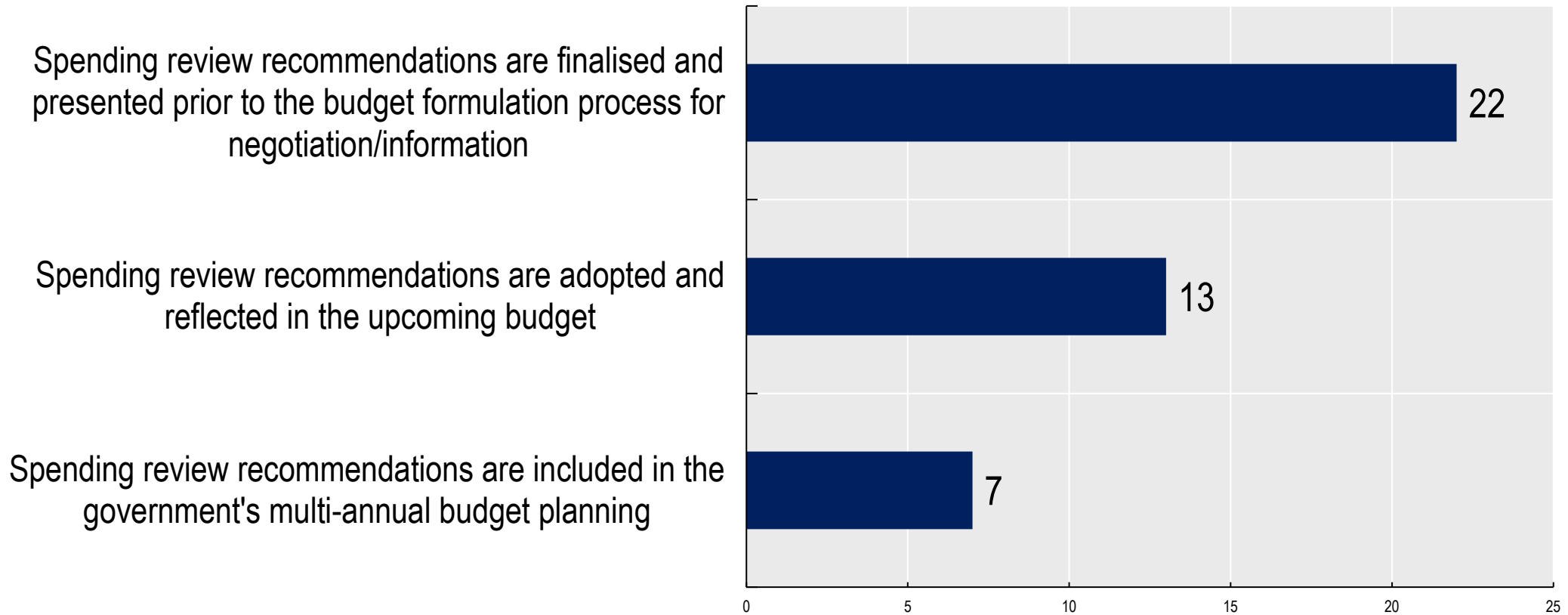
> Integration with other PFM tools

- > Performance information can have valuable input and should be available and used in the spending review process.
- > *Important to have good-quality performance information in place.*



Link to the budget process

How are spending reviews linked to the budget process?





Update the spending review framework periodically

- > *The framework should be updated according to ever-changing challenges*
 - > The increased use and broader application of spending reviews illustrate how spending reviews have evolved to suit the circumstances and priorities of a country.
 - > The framework should take stock of changes to the environment in which it operates, as well as reflect on strengths and potential weaknesses observed within the current spending review framework.
 - > *Have **dedicated staff that can help co-ordinate and monitor reviews** over subsequent years to allow for adjustments to ensure reviews remain effective in budgeting and policy decisions.*

Any questions?

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