



Central Harmonization Unit
Ministry of Finance of the Czech Republic

Methodology for Spending Reviews in the Czech Republic

Spending Review Unit – 4704

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Methodology for Conducting Spending Reviews

The purpose of this methodological guide is to describe the standard procedure and method for conducting spending reviews. The document sets out the context of spending reviews and their objectives, the workflow, inputs and outputs and the associated risks, together with a definition of how these will be managed. The document thus sets out the expectations of the cooperating institutions and the related requirements. The document serves mainly as a starting point for the authorities collaborating on the spending review agenda, their managers and other staff. The document also serves as information for the professional community and the OECD, which monitors the spending review agenda across member states.

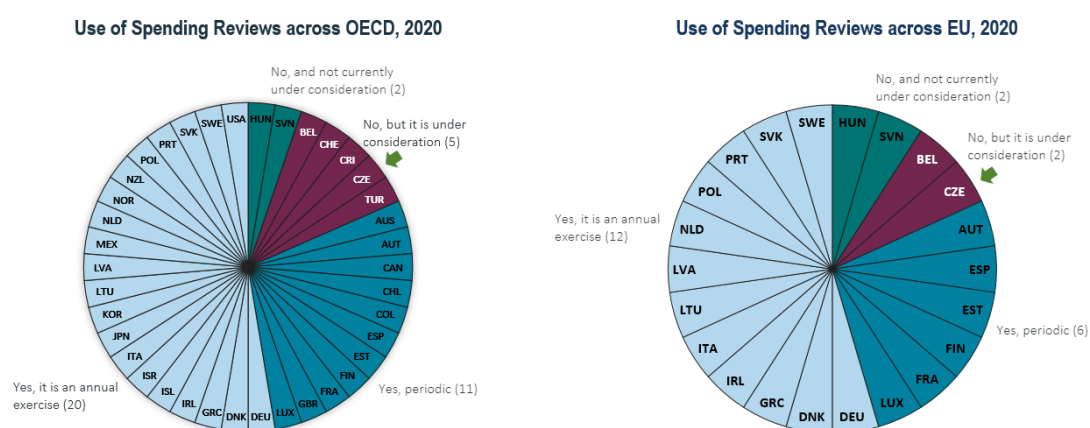
1. Framework for Spending Reviews in the Czech Republic

1.1 International Context

Spending reviews are widely used in OECD states and have become an important tool for setting priorities in the allocation of expenditure in the context of government budgeting, precisely at a time of widening public budget deficits and increasing pressure on public spending. Almost all OECD states use spending reviews as part of the budget process, although practice varies across states. Spending reviews can be comprehensive in nature, focusing on overall government expenditure, or they can be thematic, focusing on expenditure in specific sectors or areas. Spending reviews also vary in frequency and duration.

Denmark, Norway, Ireland and Germany, for example, are among the states where the spending review agenda has long been an integral part of the budget process and are widely regarded as examples of good practice within the OECD.

Charts 1,2: Use of Spending Reviews across OECD and EU



Source: OECD presentation "Spending Review Framework", June 2023

In Norway, spending reviews are closely linked to the budget process and are an established part of budget planning. The Norwegian government has initiated three budget strategy conferences. The first of these was held in the autumn of 2017, and discussions included new Terms of Reference for spending reviews, the results of previous spending reviews, and budget priorities for the coming year.

In Denmark, spending reviews have been carried out for more than 20 years. At the beginning of each year, usually in January or February, decisions are made on areas/topics with the aim of completing the spending review by early May. This ensures that the outputs of the spending reviews in specific areas will be available to the government in June, when budget priorities for the coming period are decided.

Ireland carries out spending reviews in three-year cycles, during which the entire budget is subject to a spending review. In recent years, it has set itself the goal of creating a set of analyses to serve as a basis for government decisions on the allocation of resources, to promote the efficiency and effectiveness of spending, to provide evidence for possible reforms, and to ensure that reforms are incorporated into the budget process.

1.2 Spending Review Implementation Status in the Czech Republic as of August 2023

The first effort to implement spending reviews in the Czech Republic was in 2020, when a pilot project on spending reviews in the health sector was implemented. This was specifically for a medical residency subsidy programme. The project lasted eighteen months and had technical support from the OECD. The pilot medical project was implemented by the Ministry of Finance and concluded with a final report (*Final Report from the Spending Review Pilot Project in the Czech Republic*). Since 2023, a new project has been implemented in cooperation with the OECD (under the Technical Support Instrument (TSI)), where for two years the OECD will

provide technical support for the implementation of the spending review and will also introduce a performance budgeting framework.

1.3 Objectives of the Spending Review in the Czech Republic

The main objective of the spending review agenda is to provide an analytical basis for evaluating individual fiscal policies, in particular their **effectiveness and efficiency**. In other words, the **objective of the spending review is to compare the inputs (expenditure) and outputs (outcomes) of the different policies**. The spending review does not focus primarily on cost-effectiveness; the state has other tools for assessing cost-effectiveness, notably public administration control. While the spending review may provide an assessment of cost-effectiveness where this appears possible and appropriate, the spending review methodology does not presuppose an assessment of legality or compliance (accord with regulations) in the broader sense. Assessment of legality is possible only in the mode of public administrative control or within the framework of management control and audit according to the relevant procedural rules (in particular the Control Code and the Financial Control Act). Due to its analytical nature, the spending review process stands outside these procedural standards.

A spending review seeks answers to the following questions in particular:

- Do the different public institutions and programmes have objectives under the programme funding?
- Are the stated (political) and written objectives consistent? Does the strategic documentation reflect the evolution of government priorities?
- Are the objectives measurable, understandable, achievable, relevant and have deadlines?
- Is the achievement of the set objectives measured and evaluated?
- Are the different fiscal policies effective in achieving the stated objectives?
- Is it possible to achieve the stated objectives in a different way or at a lower cost?
- Are there expenditure duplications in achieving the same or similar objectives?
- Should specific programmes under programme funding be structured differently or reformulated?
- What are the costs of administering programmes under programme funding?
- Are the reasons for the existence of a particular programme (expenditure) still valid?
- How are the spending priorities ranked? Do they correspond to the formulated (agreed) political priorities?

The spending review serves as an input, in particular for the preparation of the medium-term budget outlook, the state budget as a whole, and for setting priorities within individual budget chapters. A spending review is therefore a management tool which does not give rise to any legal or other obligations. Spending review outputs can also make a substantive contribution to the public debate on public spending and generally improve accountability for public spending. The schedule for the preparation of individual analyses is adapted to this.

Spending reviews can be either comprehensive or thematic. Spending reviews can also be one-off or regular (recurring after a certain time interval).

1.4 Subject of the Spending Review Agenda

Similarly, to other OECD states, in the Czech Republic the spending review will be a separate agenda with a procedural link to the preparation of the state budget and the preparation of the state final account. The agenda itself is project-based, i.e., it consists of the preparation of independent analytical case studies. This project nature is manifested by the application of standard project and process management tools. The project tools, in particular management structure, expectation management and change management, are essential because of the requirement for close cooperation between the political representation, the different ministries and the project team under the Ministry of Finance. As the final recommendations may be directed both at the formulation of policy objectives and at their official implementation, joint “ownership” of each project by both the responsible politician and the official with the relevant responsibility and at the appropriate hierarchical level is necessary.

The Spending Review Project Manual itself forms Annex 3.

In the **Parameters Stage** the Terms of Reference will be completed and approved according to the OECD informal standard. The Terms of Reference will be standardised, and will be the same form for all spending reviews (see Annex 4), but of course with different content. The Terms of Reference will be completed in cooperation between the ministry and the Ministry of Finance. A prerequisite for the launch of the spending review is that the Terms of Reference is mutually agreed and approved by the government.

The output of the stage is a Terms of Reference containing the clearly defined objectives of the spending review, the scope of work, project team structure and schedule.

The **Options Stage** will involve the study of publicly available documents and documents provided by the ministry. On the basis of this study, the theses will be formulated by the working team and subsequently verified by both analytical activities and discussions at the relevant working and management levels within the working groups or the project management structure.

The output of this stage is an analytical basis containing a proposal for measures to be taken for an official and/or political decision. This document also includes an analysis of risks and a proposal for their management. The analytical basis is the final output of the team assembled under the Terms of Reference and is produced in cooperation between the project team of the Ministry of Finance and the relevant ministry. The analytical output is submitted according to the Project Manual to the project guarantors for the Ministry of Finance and the relevant line ministry.

This outcome concludes the spending review, which is being led by the Ministry of Finance. The following stages are, by their nature, under the responsibility of the relevant ministries, and the Ministry of Finance cooperates in them.

In the **Pre-Implementation Stage**, the relevant level (authority/minister/government) decides how and if individual recommendations will be implemented, as the output of this stage is usually the input for the preparation of the national budget and the medium-term budget outlook.

The output of this stage can be either a formal **government resolution**, a binding document at the level of the relevant ministry, or an informal decision and instruction for budget adjustments. These documents will be prepared by the ministry subject to the review with the support of the Ministry of Finance, where appropriate.

In the **Implementation Stage**, the other approved recommendations will be implemented, usually not with the participation of the Ministry of Finance.

The output of this stage is the implementation plan and its implementation. This plan is provided to the Ministry of Finance for information and subsequently the Ministry of Finance is informed once a year on its implementation until the end of implementation.

And the whole cycle will be evaluated in the **Monitoring Stage**. This stage is fundamental, and the outcome can be both positive and negative. Experience from abroad shows that not all spending reviews have to be successful and that failure is normal. The potential failure of a spending review should not be a reason to end the spending review agenda, but should serve as a lesson for the further development of the state budget preparation.

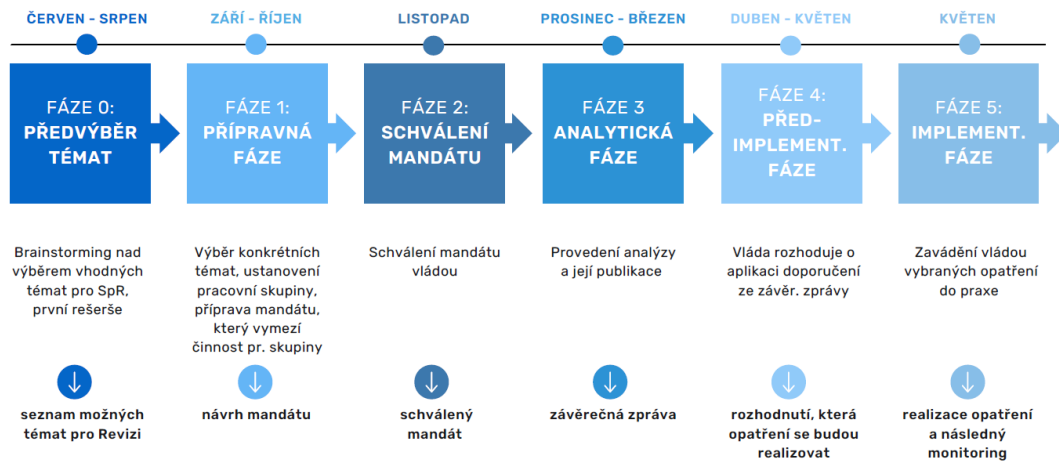
The output of this stage is a report prepared by the relevant ministry. This report is sent to the Ministry of Finance for information.

1.5 Procedural Continuity with the State Budget Cycle

In order for the spending review to be meaningful, it must always be available at the start of debates on the budget for the subsequent year and the budget outlook for the next period, i.e., in May of the current year. This determines the starting date for work on a particular spending review, which is usually the autumn before, or even earlier for comprehensive reviews. The timeframe for the most comprehensive reviews is captured in the attached diagram, which emerged from discussions with the OECD when preparing the spending review agenda.

Picture 1: The Process of Spending Reviews in the Czech Republic

PROCES REVIZÍ VÝDAJŮ V ČR



Processed by Mgr. Jiří Valenta

1.6 Risks of the Spending Review Agenda and Their Management

The new spending review agenda will bring with it various risks that can be managed. No risk that would make it impossible to implement the agenda due to the extent of its impact and the likelihood of its materialisation has been identified.

Table 1: Risk Analysis for Spending Review

Risk for the Spending Review Agenda	Risk Description / Commentary on the Risk	Measures / Risk Management
Lack of political support	The spending review cannot be managed at project level without political support, nor can this cross-ministerial and inter-ministerial agenda realistically be implemented to achieve the expected results.	To reduce the risk of lack of political support, emphasis will need to be placed on the clarity, communicability and usefulness of the outputs. This includes the practicality and feasibility of the proposals. The spending review agenda must be seen as a practical policy tool, not as more bureaucracy.
Promotion of the Agenda and Key Officials' Confidence in it	Distrust of the spending review agenda, which can resemble an audit or check with all its consequences (sanctions, negative media image)	This risk can be mitigated by emphasising that it is not about finding errors, but rather about finding opportunities. Furthermore, by jointly setting rules (project manual) and adhering to them. Seeking consensus on the outcome of the spending review is also essential.
Unreasonable expectations	For example, expecting that a spending review will result in an increase in a given chapter's budget may be unreasonable.	A spending review proposal should not contain arguments directed solely at the fact that the policy in question is underfunded. In such a case, the review must also include a proposal for the reallocation of resources within the chapter. The spending review proposal should not be aimed at proposing an increase in expenditure, as this is not the aim of the agenda.
Departmentalism or lack of cooperation between the ministry subject to the review and the Ministry of Finance within the project team.	Risks include withholding information, chronic lack of time, shifting deadlines, diluting conclusions, disregarding project rules and schedules, excessive adherence to redundant argumentation, and careful or unclear wording in the text.	This risk can only be mitigated by building trust within the project team and strong political support for the project. To increase trust, it will therefore be important to create an informal spending review community through which involved officials, experts and politicians can meet and discuss openly and generally the problems and issues of government expenditure.
Negative impact of the implementation of the spending review	It may be that the proposals implemented do not deliver the expected results or that their costs are higher than expected. This can, and has, happened in other states. The objective of the spending review is to initiate change, and change can come about in any way, but this must not be an argument for maintaining the status quo when it is objectively unsatisfactory.	The purpose of the spending review needs to be continuously explained, and intensive communication within the project team is important.
Risk that the spending review agenda is ineffective	Spending reviews should not address small amounts of public money and should thus not result in budget-neutral proposals. While no threshold can be set in advance for the effectiveness of a particular review, it can generally be concluded that reductions in small operational expenditure items by fixed percentages can be achieved without detailed analysis, and at an official level without the need for a political decision.	Consider targeting the spending review to ensure it is effective and budget-significant.

Source: Own Processing

The spending review will also not produce any new datasets - it will mainly work with existing data. And these are often not in a structure and volume applicable for the purposes of the spending review. It is therefore necessary to explain what databases the state has and why it processes them, so that "data-based" decision-making can be implemented in those areas where data are actually available, and not in areas where data are not available or where data sets are just beginning to be created.

2. Working Methods

2.1 Prerequisites and Conditions

Spending review methods are not codified or standardised, and are not regulated by any binding regulation or international standard. Various methods are therefore used for spending reviews, with the common aim of producing a sound analytical basis comparing government expenditure with the results achieved.

This makes them significantly different from financial management, control and audit, which in the Czech Republic is regulated by Act No 320/2001 on financial control, and from budgeting, which is regulated by Acts No 218/2000 and 250/2000.

Any codification of the spending review method does not appear to be practical and appropriate, in particular for the following reasons. The essence of a spending review is the **analysis, comparison and synthesis of existing evidence** on a given issue and subsequent **discussion** with decision-makers, both politicians and officials and, last but not least, with experts and other stakeholders.

We therefore consider it appropriate to set out the rules for this discussion in the project manual. **Consensus** is another aspect of the spending review, making spending reviews very different from public audits. Spending review conclusions should be agreed by the ministries through discussion, i.e. in the framework of the project. The final analytical report is consensual.

Another essential requirement of the spending review is **clarity**. The outputs of the spending review should be clear and, as a result, widely accepted by politicians and the professional and lay public alike. Therefore, it is not appropriate to use technical language such as audit trail language in relation to spending reviews. Rather, the issue needs to be explained and illustrated with clear graphs and visualisations. The spending review is intended to inform future policy debate and subsequent decisions and must therefore focus on describing the future state rather than analysing the current state (beyond what is strictly necessary).

The spending review is conditional on **finding the optimal allocation** of public funds within the existing budget framework. In other words, the purpose of the spending review is not to propose an increase or decrease in the budget of a particular chapter, either in favour of another chapter or in favour of reducing the tax burden or the national debt. The objective is to compare public expenditure with the results achieved. At the same time, the spending review conclusion should not be that there is a lack of funding in the area and that this need to be increased. This is a universally valid statement in any economic situation of scarce resources.

Areas of significant budget impact should also be the subject to a spending review. On the other hand, the subject of the spending review should not be visible in the media, but small operating expenditures from the budget perspective.

The method of working on the spending review is to prepare **text, graphs and figures** that show how to change the policy under review to make it more targeted and effective. The spending review does not foresee the collection or creation of custom datasets and completely original analyses based on such datasets. The spending review therefore does not create the preconditions for the creation of a new information system, and the agenda does not require the modification of existing information systems. The spending review is primarily based on existing datasets and analyses.

The specific spending review will always be tailored to the requirements arising from the Terms of Reference, and the different methods and workflows will be adapted to the specific situation.

2.2 Working Groups

The focus of the work on spending reviews abroad is on working groups that meet repeatedly for a single review to assess the materials prepared by experts or the analytical team. These working groups also include external experts. In Czech practice, this way of working is the target state, the conditions of which are a general consensus on the agenda of the spending review and the willingness of external experts to participate

in this work for free, or for a fee if funds for their financing are obtained outside the state budget (e.g. from the TSI project). The working groups will have materials for their discussions prepared by the project team based on the activities listed below, implemented through collaboration between the staff of the Ministry of Finance and the ministry subject to the review, in accordance with the approved Terms of Reference. Working groups, as run in some other OECD states, can only be established under the above conditions. Otherwise, the working groups will be composed only of employees of the relevant authorities, which generally have inter-ministerial cooperation as part of their job description.

2.3 Guided Interviews and Guided Discussions

A key component of the spending review is a discussion with key policymakers, officials, experts and stakeholders on the materials gathered and their analysis to identify ideas for change. Given the time available to all the stakeholders, guided interviews and guided discussions are an essential method of analysis. These interviews (discussions) are prepared in advance by the analysis team, including the questions. Structured interviews or discussions can be a substitute for, or a complement to, discussions in large working groups. Structured interviews are usually used to obtain information and opinions from key stakeholders or external experts who cannot be directly involved in the project for various reasons.

The goal of the interviews and discussions is the identification of a change and its formulation, and it is the reason why the discussion must be guided and cannot be unspecified brainstorming. A questionnaire may be part of this stage. The outcome of the interviews should be an analysis and formulation of specific proposals for changes supplemented with arguments, at a level of detail that will allow their implementation. An assessment of the risks related to the implementation of the proposal and a proposal for their management are essential parts of this. Guided interviews can be crucial in situations where the project cannot ensure the proper and effective functioning of the working groups, particularly for financial, capacity and time reasons.

In terms of substance, the results of the debates should include a prioritisation of the objectives in terms of state expenditure and a proposal for their further evaluation. Secondly, a proposal for transfers within the budget of the relevant chapter, i.e. cuts and new expenditure, but always together, always within the chapter, and always with the objective of better value for money. There can be two types of defined savings: strategic and effective. Proposals for budget changes should be predominantly medium- and long-term in nature.

At the same time, the objective of the spending review should be to identify areas where government spending is inefficient and does not meet either the stated or any objectives. This can result from debates and structured interviews. Also, to identify areas where the same result can be achieved with less expenditure and where resources can be shifted from lower to higher priority areas. The discussions will also show which areas have a high degree of prioritisation and which do not.

Such detailed formulations of the debate and interview objectives are essential from the point of view of their management. It is neither possible nor expedient for discussions to go in different directions, or nowhere at all.

The following are inputs that will be relevant for the work of the working groups and/or the guided interviews and discussions.

2.4 Analysis of Written Policies and Original Evaluations

The spending review is mainly based on existing evaluations of the policy or programme in question. This input for discussion is crucial and one of the spending review objectives is to help increase the incidence and quality of public-spending evaluations. The spending review is not intended to test or validate existing evaluations or to re-evaluate them.

2.5 Database and its Analysis

Another input for the working groups' discussions is the state budget data. The data in the state budget are mainly classified by type and sector and, as such, serve a different purpose than the spending review agenda - the data in the state budget provide information on its execution. They are therefore of limited use for the purposes of the spending review. Budget data are in IISSP (Integrated Information System of the Treasury),

RISRE (Budget Implementation) and RISPR (Budget Preparation) modules. Another IISSP module is a related database with limited use for expenditure auditing, namely the CSUIS (Central System of Accounting Information of the State), which contains accounting data for all selected accounting units, i.e. public sector organisations. The Auxiliary Analytical Reports may also have analytical value. Another dataset is the EDS/SMVS (Registration Subsidy System/State-Owned Property Management) financing programme records, containing detailed data on investment plans, including a detailed breakdown into individual investments or purchases.

In particular, the database can be used to compare the state's assets before and after the implementation of a particular policy, and this can be compared with possible impacts or outcomes if such data are available. The specific datasets available to individual ministries cannot be identified in general terms, but will be an important input for the review of individual ministerial policies.

The Czech Statistical Office is an important data source.

The spending review does not require separate data collection or any database of its own. At the same time, the analysis of the available data will be methodologically limited to comparative analysis and the use of simple statistical and mathematical tools, the goal of which will always be a clear graphical presentation of the topic or thesis.

The initial stage of each review will identify the datasets to be worked with, including the time period and data source. The datasets must be verified by the ministry subject to the review and should not change or evolve during the review. A situation in which the data used are questioned in the final output must not occur.

2.6 Analysis of SAO Audit Conclusions and OECD Studies

The Supreme Audit Office (SAO) calls for evaluation and assessment of the effectiveness and efficiency of the government's expenditure in its audit conclusions. This long-standing demand from the highest audit institution is thus undoubtedly one of the main reasons for the introduction of a separate spending review agenda.

At the same time, the SAO separately formulates findings affecting the area of spending review.

This is, however, an audit instrument of the Chamber of Deputies and, consequently, of the public. In contrast, the spending review is governmental (a managerial instrument), meaning that, unlike an independent audit institution, the government can autonomously set its own priorities and tasks for spending review through the MoF according to the current budget needs and the government's programme. However, the SAO's findings related to the subject of the spending review will undoubtedly be an essential input for the discussion within the working groups.

Spending reviews will reflect and build on the SAO's findings in order to eliminate duplication of agendas as much as possible.

Annex 5 – SAO Spending Review Findings

2.7 Reflection of the Public, Media and Professional Debate

Another essential input for the activity of the working groups is an analysis of the public, media and professional debate on the specific topic of spending review. In this respect, the spending review also works the other way around. This means that the agenda itself can and should contribute to the public debate by producing, for example, charts, brief opinions and articles on specific topics. This dimension of the spending review agenda does not require the cooperation of other ministries and can be based on its own analytical work. An important part of the spending review agenda is fact-checking specific media topics related to government expenditure and substantive contributions to the related public debate.

2.8 Standard Output Structure

In many states, spending reviews have a structured and standardised form, and this will be the case in Czech practice as well. The output standard fixes expectations and thus increases mutual trust, necessary for successful project implementation. The standard output form will be as follows:

1. Managerial Summary
2. Introduction – Objectives of the Spending Review and Method Used
3. Overview of the Reviewed Policy/Programme
 - a) Objectives
 - b) Context and History
 - (c) Policy/Programme Expenditure
 - (d) Basic Policy/Programme Principles and Characteristics
 - e) Existing Evaluations, Assessments, Audits, etc.
4. Policy/Programme Performance Analysis
5. Summary of the Discussion on Possible Changes, Including an Indication of Priorities, Risks and Timeframe – **text**
6. Summary of the Discussion in Financial Terms – **table**
7. Proposal Cards

This universal output structure is loosely inspired by the standard Irish model.

2.9 Formulation of Proposals

Proposals can be formulated in variants, but must be done in such a way as to allow a political decision to be made and so they do not need further elaboration. Generally, proposals should be in the form of a government resolution, but in the case of a ministerial- or official-level decision, the decision should be documented in an appropriate manner (e.g. Ministerial Order, Secretary of State Decision, instruction to change the draft budget, etc.). The outcome of the spending review may also be a proposal to amend legislation, in which case the proposal will be a general suggestion rather than a detailed substantive plan. The proposal for a change in information systems, as well as other substantive proposals, should include a quantification of the costs involved.

Sample standard spending review output structure – **Proposal Card**:

Description of the problem – **Proposal for Change** – responsible authority/person - description of the proposal - duration of the implementation stage – anticipated impact – anticipated cost of implementation – anticipated savings/streamlining.

