



# Technical Note on how to integrate Spending Reviews in the Federal Budgetary System in Belgium



## **Technical note on how to integrate spending reviews in the Federal Budgetary System in Belgium**

This technical note focuses on recommendations for the Federal Government of Belgium to design and implement spending reviews at the federal level and in the area of social security, in terms of governance, the design of the actual review process and the alignment with the budget process.

Axel Mathot, Senior Policy Advisor, Public Management and Budgeting Division, Directorate of Public Governance, OECD, ([axel.mathot@oecd.org](mailto:axel.mathot@oecd.org)).



The project was funded by the European Union through the Structural Reform Support Program (SRSP) and implemented by the OECD in cooperation with DG REFORM of the European Commission.

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# Executive summary

Taking into account the economic and budgetary situation of Belgium, both the European Union and the OECD recommended that the Federal Government implements spending reviews to help prioritise and improve the efficiency of its public expenditure. A spending review is a collaborative process of developing and adopting policy options by analysing the government's existing expenditure within defined areas, and linking these options to the budget process. It aims to control the level of total expenditures, align expenditure to priorities of the government and/or to improve effectiveness within programmes and policies. A specific feature of spending reviews is the evidence-based analysis of existing expenditure.

Spending reviews are not a panacea for limiting public expenditures or improving expenditure prioritisation. Nevertheless, they can be an important tool to progress these goals, in particular for newly elected governments, as the reviews help provide assurance to ministers that the activities of ministries align to the (new) government's priorities.

The purpose of this Technical Note is to provide recommendations for the Federal Government of Belgium to design and implement spending reviews at the federal level and in the area of social security. The recommendations take into account the circumstances of Belgium and are based on good practices from across OECD countries.

For a successful spending review, it is necessary to establish a sound governance system, well aligned to the governance of the country. The review process is necessarily political as it may result in changes to the size and/or composition of a ministerial portfolio. As such, political leadership and direction is crucial. The Council of Ministers should be responsible for decisions on the areas to review, the adoption of the Terms of Reference and for making decisions on the policy options described in the review. Moreover, political support is important in the implementation phase, as policy options may require legislative change or organisational reform. Without political support, even a well-designed spending review process will not necessarily bring the desired results.

At the administrative level, BOSA (Federal Public Service: Policy and Support, responsible for the Federal Budget) should be the driving force for undertaking spending reviews. Line ministries should be significantly engaged in the process, notably through the development of policy options and the implementation of the agreed findings from a review. In the area of social security, it would also be important to engage civil servants working in social security institutions. The development of policy options should be a technocratic process performed by civil servants, since this will ensure that the options can be implemented.

In order to ensure that the policy options from spending reviews are relevant to political decision makers, the process of spending reviews should be integrated into the budget preparation process. Alignment or integration with the budget process increases the impact of spending reviews and the chances of success. The results of spending reviews should be available when important budget decisions are made. Moreover, it is important that spending reviews are not only integrated with the annual budget elaboration process, but also that they take into account a multi-annual perspective, which in turn would benefit from a

strengthened medium term expenditure framework. This Note contains proposals on how to integrate the reviews into the budget process, including the roles of actors and the timeline.

Once the political decision to start spending reviews is taken, a series of preparatory steps will need to commence, including capacity-building activities and creating an institutional framework for spending reviews. To start with spending reviews, it would be prudent to conduct a limited number of selective reviews, to build capacities.

Finally, to ensure that the results of spending reviews are implemented, it is important to design effective monitoring and follow-up mechanisms, led by a line ministry in co-ordination with BOSA.

Given the fact that there was a caretaker government from the end of 2018 till the beginning of October 2020, a political decision on spending reviews was postponed. When the government was formed in October 2020, spending reviews were anchored in the coalition agreement which stipulates: "The goals of effectiveness and efficiency of government expenditure are pursued by means such as a rationalisation of the regulations (overlapping and dormant regulations), a correct application of the regulatory impact analysis, and an analysis of expenditure (spending reviews and zero-based budgeting)".

Furthermore, on 18 December 2020, the Council of Ministers approved a note on the implementation of spending reviews within the Federal Government. In accordance with the recommendations of the OECD to start with selective spending reviews, the Council of Ministers has decided to start a pilot project in the following 3 domains:

- tax expenditure;
- primary government expenditure;
- social security.



# Acronyms

BOSA	Federal Public Service Policy and Support (CBA is incorporated in this service)
CBA	Central Budget Authority
CoM	Council of Ministers
GDP	Gross Domestic Product
IMF	International Monetary Fund
INAMI	Institut National d'Assurance Maladie-Invalidité
INASTI	Institut Nationale d'Assurance Sociales pour Travailleurs Indépendents
MTEF	Medium-Term Expenditure Framework
OECD	Organisation for Economic Co-operation and Development
ONSS	Office Nationale de Sécurité Sociale
ORPSS	Office des Régimes Particuliers de Sécurité Sociale
NAO	National Audit Office
PFM	Public Financial Management
SAI	Supreme Audit Institution
SPF	Service Public Federal (Federal Public Service)
SR	Spending Reviews
ToR	Terms of Reference

# 1 Introduction

The Belgian federal authorities requested technical support from the European Commission's Directorate General for Structural Reform Support (DG REFORM) in order to prepare a report on the usefulness of spending reviews and to provide proposals to decision makers on the best ways to implement spending reviews at the federal level. This note has been produced by the OECD Secretariat as part of the Project "Preparations for implementation of spending reviews in Belgium" that the DG REFORM set up for this purpose. This project aims to follow up on the recommendation of the Council of the European Union in the context of the European Semester to the effect that the Belgian authorities should "improve efficiency and composition of public spending at all levels of government to create room for public investment, notably by carrying out spending reviews".

The project required two outputs: (1) a background paper, entitled "Spending reviews in OECD countries" and (2) a technical note on how to integrate spending reviews in the Federal Budgetary System in Belgium, with advice and recommendations to the federal authorities. This document constitutes the second output.

This note starts with a summary of the specificities of Belgium that would affect the process of spending reviews and a summary of good practices for spending reviews as identified by the OECD. The second part of the note provides advice and recommendations regarding the aspects that could be applied by the Federal Government including the design and implementation of spending reviews.

The project applies only to the federal level, including the social security sector. A similar initiative has been undertaken at the regional level in Flanders. Thus, whenever the text refers to 'Belgium', all levels of government are meant. When the federal level (including the social security sector) is meant, the term "Federal Government" will be used.

This technical note was written by Axel Mathot (OECD), Wojciech Zielinski (OECD) and Dirk Jan Kraan (OECD-expert).

# 2 Background

## Spending reviews defined

While spending reviews (SRs) are used increasingly across the OECD, the objectives, scope and design differ significantly across individual countries. Traditionally, spending reviews emphasised the following features:

- They are carried out in collaboration between a central entity and the entity or line ministry responsible for the area that is being reviewed.
- They look at baseline expenditure, and not at new spending proposals.
- They are designed to develop explicit savings or value-for-money options for governments.
- They are linked to the budget process.

These features of spending reviews evolved over time. Some countries use spending reviews ahead of considering new expenditures (for example the United Kingdom), and some countries do not come up with policy options, but rather with recommendations (for example the Slovak Republic). Moreover, the objective is not always to identify savings but also to improve the effectiveness of policies through better spending, which is increasingly common.

### Box 1. Defining a spending review

Spending reviews are a collaborative process of developing and adopting policy options by analysing the government's existing expenditure within defined areas, and linking these options to the budget process. The purposes of a spending review include:

- Enabling the government to manage the aggregate level of expenditure. Aligning expenditure according to the priorities of the government
- Improving effectiveness within programmes and policies

More about the practice of spending reviews in OECD countries could be found in the best practices for spending reviews (forthcoming).

A spending review is a specific tool of policy preparation. Normally, it is the task of line ministers and staff to develop and propose new policies. In general, this works well with respect to new policies that involve new spending or that are neutral from a budgetary point of view. Only in recent decades have many OECD governments come to the conclusion that a special tool is needed to generate policy options to create room for priorities and new spending initiatives.

Recent developments in OECD countries have shown that the objectives for spending reviews are changing. As the effects of the 2008 Global Financial Crisis faded, OECD countries moved away from a crisis-driven approach to spending reviews to an approach more similar to the Danish selective reviews,



where spending reviews are embedded in the budgetary process and aim to improve both the management and stewardship of programme expenditures.

One of the frequently posed questions is how spending reviews differ from policy evaluation and audits.

There is a number of features that differentiate spending reviews from policy evaluations. Spending reviews are designed to inform budgetary decisions. They focus not only on technical aspects of efficiency or effectiveness analysis, but encompass the whole process, which is structured in a way that enables various stakeholders to reach a consensus on policy options when negotiating the budget. Spending reviews make use of the existing *ex post* policy evaluation reports.

Performance audit is a form of audit. Like *ex post* evaluation it looks back on a given policy, but from an audit perspective. An audit perspective, as it is currently conceived by the international audit community, focuses on the reduction of risk, or on “minimising the probability of the occurrence of error, inefficient or uneconomic practices or fraud” (INTOSAI, 2004<sup>[11]</sup>). The crucial concept here is “risk”, namely the probability that irregular, inefficient and ineffective activities are undertaken. This means that in principle the audit focuses on the prevailing arrangements of internal control and governance that determine how policies were prepared and executed, rather than on the policies themselves. Performance audit is usually undertaken by independent bodies including external audit institutions such as courts of accounts, or by internal audit units.

## Enablers and good practices for spending reviews

An analysis of international experience as regards spending reviews enabled the OECD to create a list of good practices related to spending reviews. Designing spending reviews in alignment with good practices as reported by OECD countries increases the chance of success, but the feasibility of applying the practices depends on the design of the process of spending reviews, and on many country-specific factors that can (or cannot) function as enablers.

The material below refers to the situation in Belgium and is based on the existing documents and notes taken during the fact-finding mission carried out at the start of the project in September 2019. Before giving a short overview on good practices, this note identifies enablers in a federal context.

### **Enablers**

Enablers are factors that support the implementation of spending reviews and increase the chances of the successful implementation of spending reviews. The most important enablers for effective spending reviews include:

- Existence of preconditions, in particular well developed and functioning public financial management (PFM) tools:
  - Medium-term expenditure framework
  - Performance budgeting system with indicators and data
- Access to relevant data and evidence, including from a well-elaborated system of policy/programme evaluation;
- Political leadership in all stages of the process.

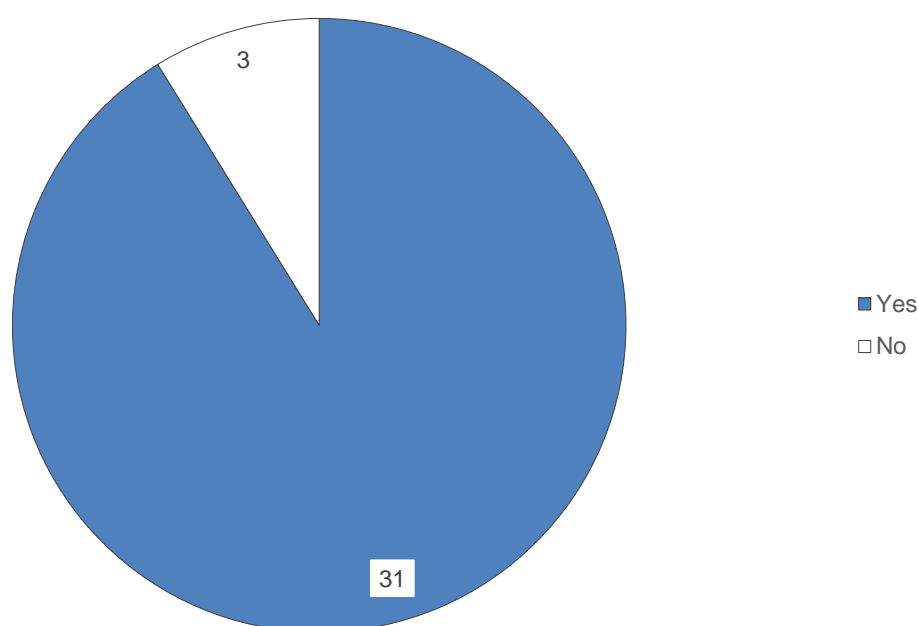
#### *Medium-term expenditure framework (MTEF)*

A well-defined MTEF is an important enabler for the successful implementation of a spending review. Without it, it is difficult to formulate terms of reference for working parties that contain a realistic benchmark of the expenditures for the policy area under review at a date of three or four years in the future. Moreover,

without such a framework it is difficult to ensure that any decision on the adoption of policy options described in the review report will in fact yield the results assumed in the report in future years. Furthermore, only a mid-term perspective allows for proposals of a more substantial nature, for example remodeling processes, re-structuring public entities, developing new IT tools or implementing complex legislative changes.

In the answers to a 2017 OECD survey on performance budgeting and spending reviews, Belgium was one of only three OECD countries that reported not having a MTEF in place<sup>1</sup>.

**Figure 1. Medium-term expenditure frameworks (MTEF) in the OECD countries**



Note: Survey Question: Does your government have a medium-term expenditure framework (MTEF) in place?

Source: (OECD, 2017<sup>[2]</sup>)

Even though a multi-annual framework is used in Belgium for the coalition agreements, this is not publicly shared, and cannot be formally regarded as a fixed agreement on spending priorities for the next four years. Furthermore, the medium-term estimates at the line item level (“*allocations de base*”) in the state budget (for each of the 2 500 line items) do not automatically acquire legal status in a budget law<sup>2</sup>. While medium-term allocations are binding, they are taken into account in the coalition agreement (although the figures of the medium-term allocations are not made public). New budgets are developed from year to year on the basis of the preceding budget, not on the basis of last year’s medium-term estimates. It is therefore difficult to determine the expenditure benchmark for a given policy area at a date that is three or four years in the future. For the same reason it is difficult to anchor political decisions on a spending review report in the budget, in particular with respect to measures that will impact the budget three or four years after decisions are made.

<sup>1</sup> The example of the multi-annual budget planning in Belgium is the multi-annual agreement on the expenditures in the area of pharmaceuticals (2014-18).

<sup>2</sup> The multi-annual estimations are contained in the Exposé General, which is an explanatory document submitted to the Parliament together with the budget (Schmetz, 2017<sup>[17]</sup>).

BOSA is aware of the importance of broader budget reforms and financial directors of line ministries together with BOSA have recently drafted and agreed a strategic note on budget reform which explains objectives for the coming years (BOSA, 2019<sup>[3]</sup>). The strategy includes:

1. strengthening of medium-term fiscal planning;
2. providing more certainty to line ministries about the availability of resources in the short and medium term;
3. simplifying procedures on financial management;
4. a more effective regime of control (including a better balance between external and internal audit);
5. improvement of internal control;
6. making the budget more output oriented (including more programmatic line items).

The first two items are closely related in the sense that they are both aimed at different aspects of medium-term fiscal planning. The third item has a cross cutting character that has consequences for all stages of the budget process. The fourth and fifth objectives apply to the process of budget execution, and the final item is about the improvement of the performance budgeting.

For the introduction of spending reviews, the strategic note goes hand-in-hand with essential steps in the improvement of medium-term planning.

#### *Performance budgeting and indicators*

Another important enabler is performance budgeting. Performance budgeting can be defined as “the systematic use of performance information to inform budget decisions, either as a direct input to budget allocation decisions or as contextual information to inform budget planning, and to instil greater transparency and accountability throughout the budget process, by providing information to legislators and the public on the purposes of spending and the results achieved” (OECD, 2019<sup>[4]</sup>). Performance budgeting is not only about performance information contributing to budgeting procedures. It is also about presenting the budget as a set of programmes (programmatic budgeting) and assigning the necessary autonomy to line ministries to implement the programmes. This all contributes to move from inputs to performance-based information.

Well-functioning performance budgeting supports effective spending reviews for the following reasons:

- linking expenditure to programmes rather than to institutions or accounting classifications demonstrates what is delivered from public expenditures;
- well-designed indicators can be an important source of information for the spending review reports on the efficiency and effectiveness of programmes;
- well-designed indicators enabling performance measurement help to identify suitable areas to review.

Performance budgeting is in the early stages of its development in Belgium. Belgium says it uses a presentational approach to performance budgeting (OECD, 2018<sup>[5]</sup>). The budget is principally divided by programmes and entities, whereas the formulation of programmes – in some cases – has limited usefulness for performance management. The indicators are contained in the explanatory notes and are the responsibility of line ministries. The quality of these indicators is not verified centrally by. Thus, it seems that performance budgeting in Belgium, in its current form, could be one of the sources of information for spending reviews, and may be an area where the quality of information improves over time.

Establishing a practice of spending reviews could strengthen performance budgeting, by making it clear to stakeholders that performance data should be used in budgeting and that the database should be extended.

### *Availability of data and policy evaluation*

The existence of good quality, relevant data is obviously an important enabler for spending reviews, taking into account the fact that reviews are usually undertaken within a short period<sup>3</sup>.

A well-developed policy evaluation system could be helpful for spending reviews, as it would increase the availability and quality of existing data/information that could be used for the purpose of spending reviews. Other considerations include:

- Policy evaluation contributes to building relevant analytical capacities among civil servants, which can be further used in the process of spending reviews.
- Policy evaluation contributes to an evidence-based organisational culture, which facilitates discussions during a spending review.
- External evaluations, if focused on performance, are an independent source of information that can be considered during the implementation of spending reviews.

If evaluations are unavailable, it does not mean that a policy area is unsuitable for a spending review. Policies can also be assessed through a range of analytical and review techniques in addition to policy evaluation. The availability of evaluation results can certainly contribute to the quality and usefulness of a spending review, but not every spending review is based on available evaluations. In particular savings options that are based on lower service levels in policy areas that have less priority cannot be based on existing evaluations, and evaluations tend to not consider reorganisation of resources to deliver existing policies.

According to the information received during the fact-finding mission, the availability of data and evidence varies across sectors/areas in Belgium. The system of policy evaluation is in an early stage of development in particular at the federal level. A report of the Court of Audit provides an overview of the current situation with respect to policy evaluation in the federal administration (Cour des Comptes, 2018<sup>[6]</sup>). The report observes that most SPF's (Federal Public Services or Ministries) perform policy evaluations<sup>4</sup>. Based on the report, not all ministries have established structures to conduct policy evaluation. The main challenge as reported by public entities is the lack of resources: for example, the resources for external evaluations have decreased due to budgetary cuts. The Court notes that BOSA has yet to develop a central strategy on policy evaluation and that such a strategy should provide an anchor for the programming, conduct and follow up of evaluations in each ministry. The Parliament should be informed of the results of all completed policy evaluations from the previous year, including their follow up, in an appendix to the budget. In the view of the Court, BOSA should provide methodological assistance to policy evaluations across the Federal Government. In response, BOSA has designed an ambitious plan to stimulate policy evaluation and to extend its coverage to all areas of federal policy.

During the fact-finding mission, the OECD found that, although policy evaluation is undertaken in different sectors, the introduction of co-ordinated policy evaluation at the federal level advances slowly due to scarcity of resources and a lack of political decisions. Currently there is one person employed in BOSA to deal with the co-ordination of policy evaluation in public administration.

In summary, there has been a moderate level of development of enablers in Belgium to support the implementation of spending reviews. The ongoing development of the enablers is able to occur in parallel

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<sup>3</sup> Some countries consider the availability of relevant data as a criterion for the selection of topics for spending reviews.

<sup>4</sup> There are numerous initiatives related to policy evaluation at the federal level, for example the Federal Planning Bureau carries out economic analyses and forecast, as well as policy evaluations. There are also initiatives at the sectoral level, for example the Belgian Healthcare Knowledge Centre prepared a report on the performance of the Belgian healthcare system in 2019: [https://kce.fgov.be/sites/default/files/atoms/files/KCE\\_313C\\_Performance\\_Belgian\\_health\\_system\\_Report.pdf](https://kce.fgov.be/sites/default/files/atoms/files/KCE_313C_Performance_Belgian_health_system_Report.pdf)

to the implementation of spending reviews. Measures that are likely to mitigate risks are explained later in this note. Parallel work on improvements in these areas is recommended.

### ***Good practices for spending reviews***

The analysis and formulation of OECD good practices has regard for the complexity of spending reviews; solutions that work well in one context or for specific objectives, may not work so well in another context or when the objectives differ. Thus, while some features of spending reviews are repeatedly showcased as success stories, the design of spending reviews would depend heavily on the specific context. Therefore, the six good practices mentioned below need to be treated with caution and should not be applied blindly.

1. **Objectives:** Whichever the objective, it should contain clear targets and expenditure baselines and be clearly communicated in terms of the review's both fiscal and policy objectives. Based on experiences from OECD countries, the objectives of spending reviews are to develop savings options and to consider efficiency improvements. Moreover, spending reviews enable continuous reprioritisation and alignment with policy and budget priorities. Spending reviews can be used to scrutinise whether increases in expenditure have been aligned appropriately with political priorities and whether they have yielded an acceptable level of value for money. These features of spending reviews require that the latter become regular exercises and are closely linked to budget processes. Moreover, the experience of OECD countries shows that to reach the full potential of spending reviews, tax expenditures should not remain out of the scope of spending reviews.
2. **Inclusive approach:** A second good practice from OECD country experiences relates to the need to apply an inclusive approach that increases the extent to which line ministries are responsible (and accountable) for achieving results. Although external expertise may be useful when conducting a spending review, assigning the responsibility for developing policy options to public servants increases their ownership. Entrusting the elaboration of policy options to mixed teams, i.e. coming not only from the Central Budget Authority (CBA)<sup>5</sup>, but also from line ministries, seems to work well. Moreover, engaging public servants from relevant ministries and stakeholders allows for effective analysis of cross-cutting programmes. The effective implementation of spending reviews requires carefully selected incentives for line ministries to reduce the risk that a spending review becomes an administrative "box ticking" exercise.
3. **Analysis:** A third good practice entails that the report prepared at the end of a spending review process examines the potential consequences to outputs and outcomes from adopting alternative levels of expenditure. Such an analysis is useful for political decision-makers and makes it easier to take optimal decisions that would achieve the right balance between the desired level of service delivery and funding level.
4. **Capacity building:** A fourth good practice consists in building capacity to ensure the review process is governed well. Capacity building refers to the professional development of civil servants engaged in the review process and the establishment of a specialised co-ordination unit in the CBA, as is the case in Norway or the Slovak Republic. The co-ordination role performed by the CBA includes providing methodological guidance and quality assurance, supported by assistance

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<sup>5</sup> The Central Budget Authority (CBA) is a public entity, or several co-ordinated entities, located at the central/national/federal level of government, which is responsible for the custody and management of the national/federal budget. In many countries, the CBA is often part of the ministry of finance. Specific responsibilities vary by country, but generally, the CBA is responsible for formulating budget proposals, conducting budget negotiations, allocating or reallocating funds, ensuring compliance with the budget laws and conducting performance evaluations and/or efficiency reviews. This Authority regulates budget execution but does not necessarily undertake the treasury function of disbursing public funds. Lastly, a very important role of the CBA is monitoring and maintaining aggregate/national fiscal discipline and enforcing the effective control of budgetary expenditure (OECD, 2019<sub>[18]</sub>).

to access good quality and relevant information. Many actions could be undertaken to increase the availability of and fast access to data and information (e.g. integration of IT systems) and to leverage external expertise when such expertise is not available in-house. These measures take time to implement.

5. **Alignment:** A fifth good practice consists in aligning spending reviews to the annual budget process and the multi-annual expenditure framework (where it exists). If well aligned, spending reviews can provide valuable input during budget negotiations. It is just as important to align spending reviews with multi-annual perspectives, leading to sustainable results and transformation. One of the good practices is starting spending reviews at the beginning of the political mandate or in the run-up to elections, such as the comprehensive reviews in the Netherlands. These spending reviews serve as inputs to the election platforms of political parties and to the negotiations on the coalition programme. Applying a multi-annual perspectives enables policy makers to set longer-term targets that include progress towards achievement of policy outcomes. It can also increase the sustainability and efficiency of expenditures, as spending reviews are not limited to short-term, 'quick win' proposals. Aligning spending reviews with multi-annual perspectives requires effective monitoring mechanisms, including reporting on implementation.
6. **Transparency:** A sixth good practice relates to the transparency of the process. Many OECD countries publish spending review reports, including Germany, Ireland, Netherlands, New Zealand and Poland. Supporting transparency implies that the government engages with the Parliament on the process and reporting of spending reviews to help inform budget discussions in the legislature.

## National characteristics

This section identifies and describes four characteristics of Belgium that have an influence on spending reviews.. Firstly, Belgium is a federal country. Secondly, a considerable proportion of public spending is allocated to social security which is an area characterised by a very specific governance arrangements in Belgium, including significant participation of social partners. Thirdly, coalition governments, which exist in many other OECD countries, have implications for the practice of spending reviews. Fourthly, at the federal level there is a delineation between politics and the senior civil service, as political advisers play a more significant role at the federal level in policy development than in many other OECD countries. The end of this section summarises challenges related to the implementation of spending reviews, as mentioned by various stakeholders during the fact-finding mission.

### ***Federal structure of the state***

Belgium is a federal country, and this has implications for its fiscal policy. Besides the Federal Government, the Belgian governance system comprises three regional authorities and three language communities (cutting across the regions), with separate competencies (e.g. in education). The regions and communities are autonomous and exercise authority independently within their domains. Authority to tax and spend is thus distributed across different levels of government, and supported by revenue sharing arrangements. The financing of regions and communities is regulated by The Special Finance Act from 1989, which can be amended only by a special parliamentary majority.

The Federal Government retains control over the judicial system, the army, the federal police, labour law, social security (unemployment, pensions, health and disability insurance), evolution of the prices, income and wages related to inflation, the financial sector and financial markets (including protection of savings and macroprudential policies by the National Bank of Belgium), nuclear energy, state-owned companies (such as Belgian Railways and the Post Office), and the federal scientific and cultural institutions.



Furthermore, the Federal Government is responsible for the obligations of Belgium and its federalised institutions vis-à-vis the European Union and NATO.

### ***Specificity of financing and management of social security***

Another circumstance that complicates the implementation of spending reviews in the Belgian Federal Government is a sophisticated management system of social security with a significant role being played by social partners and executive organisations in the area of healthcare. The social security institutions in Belgium, like the ONSS (Office Nationale de Sécurité Sociale), INAMI (Institut National d'Assurance Maladie-Invalidité) and INASTI (Institut Nationale d'Assurance Sociales pour Travailleurs Indépendants) are managed by management committees (*comités de gestion*), in which social partners (organisations of employers and employees) as well as the government are represented<sup>6</sup>. They have competences to manage the institution, including making personnel decisions. In INASTI and ONSS two sorts of management committees exist – one that manages the operation of an institution, and the other that is responsible for the decisions on the collection of resources for other social security institutions (a management committee for social security for salaried workers and a management committee for independent workers).

Another important institution for social security is the National Labour Council, which can issue opinions or proposals on social issues for the Belgian Federal Government and/or parliament (management committees of social security institutions also have this competence, see (Loi sur la gestion des organismes d'intérêt public de sécurité sociale et de prévoyance sociale, 1963, p. art. 15<sup>[7]</sup>). Furthermore, various laws also entitle the Council to issue opinions or make preliminary proposals before the adoption of royal decrees related to the implementation of laws. This is the case for individual and collective labour law (working hours, work contracts, and wage protection) and for social security (social security obligations, the concept of earnings subject to contributions, and pensions)<sup>7</sup>. The Council is composed of the representatives of employees (trade unions) and employers and is chaired by an independent personality.

Specific management arrangements exist in the healthcare sector. Apart from social partners (representatives of employers and employees), health insurance funds and healthcare providers also play an important role in the governance of the system. The most important actors are:

- Commissions, including la Commission Médico-Mutualiste, play a role in defining needs and priorities in respective sectors and in making sure that budget overruns are compensated by savings;
- the actuary service of INAMI is in charge of preparing technical estimations in the budget preparation process;
- the Commission of Budget Control (which brings together budget and the financial adviser of INAMI, representatives of partners such as health insurance funds ("*mutualities*") or labour unions, representatives of the ministries of social affairs, economy and budget and finance inspection) prepares an annual report on the healthcare budget and comments on budget proposals of the Insurance Committee;
- the Insurance Committee (composed of the representatives of insurers and service providers), does the ground work to determine budget objective proposals, including sector-specific targets;

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<sup>6</sup> Other stakeholders can also take part in the meetings of management committees, for example in ONE – representatives of regions without voting rights, in the management committee for social security of the ONSS – also the managers of other social security institutions (Loi sur la gestion des organismes d'intérêt public de sécurité sociale et de prévoyance sociale, 1963<sup>[7]</sup>)

<sup>7</sup> [www.eesc.europa.eu/ceslink/en/escs-in-member-states/belgium-cnt-nar](http://www.eesc.europa.eu/ceslink/en/escs-in-member-states/belgium-cnt-nar)

- the General Council (composed of social partners, representatives of insurers and service providers) can modify the proposals of the Insurance Committee. It makes the final decision on budget targets and savings measures to bring balance between the technical estimations and estimated needs. The Government has a right to intervene only if the General Council is not able to validate the social security budget.

These bodies have important roles during budget implementation. In case of a budget overrun, specific commissions should find savings elsewhere to balance the budget. In case the general budget objective is exceeded, it is up to the General Council of INAMI or the Federal Government to take action.

Social security and healthcare are off-budget in the sense that the budget of the social security sector is not voted by the Parliament. Nevertheless, social security has an impact on the budget and therefore the fiscal position of the Belgian state. The Federal Government is held responsible for social security's budgetary performance and it can influence it through different measures. The Federal Government also decides on the amount of equilibrium transfer to the social security system<sup>8</sup>. Social security contributions and benefits are voted by the Parliament.

A notable change that is relevant for a spending review in the social security system, is the introduction of 'conditionalities' for the equilibrium transfer as from 2017<sup>9</sup>. This transfer is meant to safeguard the budget balance within the social security system, but is conditional. Social partners are held responsible to make sure that the social security system contributes to the improvement of public finances. While fiscal responsibility criteria were set out by law in 2017, they were not yet used in practice. An evaluation regarding its effectiveness will be conducted by September 2020 at the latest before it can be prolonged (possibly with new parameters).

The new law also establishes two commissions on budget and finance (one for salaried workers, one for independent workers – they do not cover healthcare expenditure) that are in charge of analysing the volume effects of the social expenditures and conducting a follow-up on the decided measures. These commissions are composed of experts on social security and the federal administration (no representation of the social partners) and play an important role in the monitoring of social security expenditures. Since there is considerable expertise on social security in these commissions and since they are responsible for monitoring the expenditures, they could play a role in the spending reviews related to social security.

This complex setup should be taken into account in the process of designing spending reviews in the areas of social security (including healthcare)<sup>10</sup>. While the Federal Government makes decisions on social security spending and most of the expenditures depend on the legislation adopted by the Parliament, social partners play an important role in the social security management system. They co-manage social security institutions, which have the necessary expertise and data for spending reviews. They also have an important role in providing opinions and recommendations on social security legislation. In the area of healthcare, the social partners and healthcare related entities also play an important role in budget setting and implementation. Although the introduction of spending reviews is not expected to change the governance arrangements in the areas of social security and public healthcare, it will facilitate the development of policy options. Owing to the size of the social security budget, there are potential opportunities for efficiency savings in this area<sup>11</sup>. The solutions related to spending reviews will need to be designed in a way that takes into account the specificity of the management of social security and to ensure

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<sup>8</sup> The amount of the equilibrium transfer is set by Royal decrees, based on the proposal of the Government. (Loi du 18 avril 2017 portant réforme du financement de la sécurité sociale, 2017<sub>[15]</sub>)

<sup>9</sup> (Loi du 18 avril 2017 portant réforme du financement de la sécurité sociale, 2017<sub>[15]</sub>)

<sup>10</sup> In general, whenever the term social security is used in the text it means also healthcare.

<sup>11</sup> According to the OECD assessment, "there is room to improve the efficiency of public spending in areas such as health and education." (OECD, 2020<sub>[8]</sub>)

that the data and expertise possessed by social security institutions could be utilised and that social partners as well as health care related entities are engaged – to some extent – in the process.

### ***Coalition governments***

A further circumstance that both complicates and supports the introduction of spending reviews in the Belgian Federal Government is the coalition character of governments. Fiscal consolidation is typically a politically sensitive matter, on which the parties in the government coalition may hold different views. This may lead to the postponement of decisions or even delay the preparation of policy measures. A spending review procedure may help because it institutionalises the preparation and elaboration of policy options. It can facilitate discussions between coalition partners because spending review reports are prepared in a technocratic way, based on evidence.

### ***Delineation between politics and senior civil service***

Due to the way the Federal Government is organised and the large staffing of each cabinet, the political level has a broader decision-making authority at the detriment of the administration, compared to many other OECD countries. In particular, ministers in the Federal Government are supported by a politically appointed staff of 30 to 70 officials – a so-called ministerial cabinet or “strategic cell”. These officials have special status, which differs from that of civil servants, and leave office when their minister steps down. The ministerial cabinets comprise a number of administrative and technical staff, but also some 10 to 30 political advisors. Unlike in some other countries, the political advisors can give instructions to civil servants and serve as intermediaries between the ministers and the line ministries (“*services publiques*”). As a consequence, civil servants in the Federal Government can be more reserved in putting forward ideas and suggestions that could be interpreted as politically sensitive, than might be the case in a number of Western European countries<sup>12</sup>, such as the Scandinavian countries and the Netherlands, where the number of politically appointed staff is much smaller or hardly exists<sup>13</sup>. The significant role played by the members of political cabinets in developing policy options is a challenge in designing the spending review process in which – based on good OECD practices – development of policy options should be technocratic and detached from political influence.

### ***Other challenges related to spending reviews as identified by stakeholders***

Apart from the challenges described above, during the fact-finding mission the interviewed stakeholders drew the attention to other anticipated challenges related to the implementation of spending reviews by the Federal Government. These are:

- insufficient culture of co-operation between BOSA and line ministries;
- capacities of civil servants in the area of policy evaluation;
- limited staff resources in BOSA;
- unavailability of good quality, relevant data;
- dispersed data and un-integrated IT systems.

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<sup>12</sup> Another effect of a significant role of political cabinets can be some difficulty in ensuring continuity and institutional memory.

<sup>13</sup> For instance, in the Netherlands, ministers are allowed to employ at most one political assistant. Several ministers do not make use of this prerogative. Political assistants serve the minister and are not entitled to give any instructions to civil servants.

The level of political support for spending reviews was unknown at the time of the fact-finding mission that took place in 2019 and early 2020, but has since then been clarified since the notion of spending reviews was inserted in the coalition agreement and the government started 3 pilots.

## Economic and budget performance

In February 2020, real GDP per capita in Belgium had surpassed the levels preceding the 2008 Global Financial Crisis (GFC). Employment was at historical heights and the unemployment rate, at 5.2% in the third quarter of 2019, was the lowest rate in the past four decades. Nevertheless, the growth rate remained below that in the euro area and pre-GFC levels. According to the OECD, boosting growth would require product and labour market reforms to enhance productivity (OECD, 2020<sup>[8]</sup>).

The fiscal deficit has narrowed to 0.7% of GDP in 2018 and public debt, though still much too high at 100.0% of GDP in 2018, has started to decline. Table 1 provides an overview of key fiscal indicators over the last few years, as well as projections from the European Commission for the medium term based on current policy. The figures for 2020 and 2021 reflect a first estimate of the impact of the COVID-19 crisis.

**Table 1. Key fiscal indicators for Belgium (percent of GDP)**

General government	2017	2018	2019 proj.	2020 proj.	2021 proj.
Revenue	51.2	51.4	50.3	50.7	49.9
Expenditure	51.9	52.2	52.2	59,6	54.2
Fiscal balance	-0.7	-0.8	-1.9	-8.9	-4.2
Structural balance	-1.7	-1.8	-2.6	-4.7	-2.9
Gross government debt	101.8	100.0	98,65	113,8	110.0
Growth of GDP	2.0	1.5	1.4	-7.2	6.7

Source: (European Commission, 2020<sup>[9]</sup>)

The outcomes for the years 2017 to 2019 are partially due to substantial reforms over the last four years (OECD, 2020<sup>[8]</sup>). These reforms included:

- the “tax shift” entailing lowering social security contributions and reducing personal income taxes for low-wage earners, partially compensated by higher excise duties on alcohol, tobacco, diesel, and soft drinks, higher VAT on electricity and tax increases on non-labour income;
- corporate tax reform, entailing a cut in the standard corporate tax rate from 33% to 29% and a further decrease to 25% in 2020 and a lowering of the rate for small- and medium-sized enterprises to 20% for the first EUR 100 000 of their tax base, partially compensated by broadening of the bases of these taxes;
- pension reform, involving an increase in the statutory pension age, stricter eligibility criteria for early retirement and pre-pension benefits, and abolition of the pension bonus system;
- labour market reforms, involving tightening eligibility for unemployment benefits, allowing shorter notice periods during the initial months of employment, extending “flexi-jobs” to retail industries, introducing more working-hours flexibility in the e-commerce industry and granting tax advantages to employers hiring their first worker;
- wage moderation in order to keep compensation of employees in line with neighbouring countries; this involved the suspension of the wage indexation mechanism from April 2015 to April 2016 (the “index jump”, leading to a real wage loss of 2% for all employees), and adjustment of the framework for determining the maximum real wage increase allowed at the sectoral level (the “wage norm”);

- company law reform to the effect that the concept of “enterprise” was redefined to include liberal professions, farmers and non-profit sectors, leading to enhanced competition in the markets of these sectors; in addition, in 2018 insolvency law was reformed, to apply to all enterprises, improve conditions for second chance for entrepreneurs and introduce new informal procedures;
- education reform involving major school regulation measures in both the French speaking and Flemish speaking communities to improve outcomes, especially in equal opportunities.

The government has been aiming to reduce the structural deficit to zero in the medium term since 2014, but until now has made only slight progress towards this objective. While the fiscal deficit has narrowed in recent years and complies with the limit of 3% of the Maastricht treaty, it is larger than the European Union average. Before the COVID-19 crisis the headline deficit was expected to increase to 2.3% in 2020, which will now deteriorate.

Although public debt has been falling gradually since 2015, it remains among the highest in the European Union (European Commission, autumn economic forecast). It is also far above the Maastricht treaty limit of 60%. According to the OECD the path of public debt will be highly dependent on the government’s ability to introduce new measures that offset the rising costs of ageing (OECD, 2020<sub>[8]</sub>).

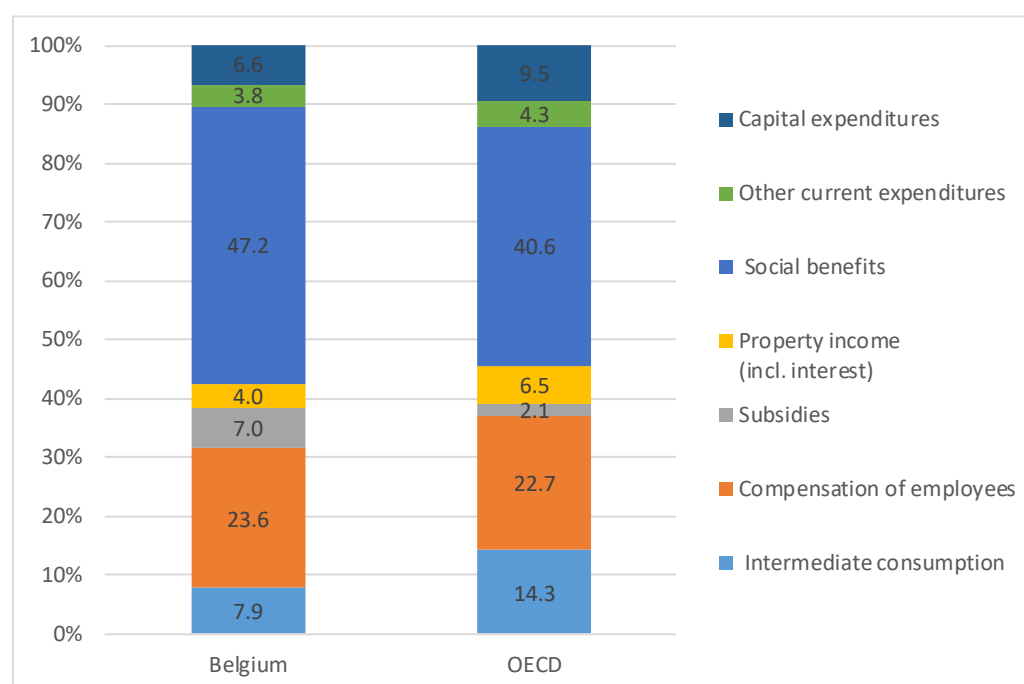
Despite recent decreases, public expenditure in Belgium remains among the highest in the euro area at 52.1 % of GDP in 2018 (see Table 1). In this light, the OECD suggests that there is scope for a spending based fiscal adjustment, rather than a tax based one (OECD, 2020<sub>[8]</sub>). Furthermore, the European Commission has noted that in the past Belgium has mostly relied on across the board cuts in order to achieve consolidation target, which is not the best way to boost spending efficiency (European Commission, 2019<sub>[10]</sub>). In this light, the European Commission recommends the use of spending reviews to reprioritise expenditures. The OECD subscribes to this recommendation and put forward observations that support this view (OECD, 2020<sub>[8]</sub>). The OECD notes, for instance that:

- social expenditures have increased from 24% of GDP in 2000 to 29% in 2018, in contrast to the OECD average, which declined from 28% to 20%;
- capital expenditure, which offers the greatest potential for lifting long-term output, remains relatively low in Belgium (see Figure 2)<sup>14</sup>; specifically, infrastructure investment is low in international perspective and 55% of firms cite transport infrastructure as an obstacle to investment, higher than the European Union average of 47%;
- while education and health outcomes are relatively good, there is room to improve the efficiency of spending in these areas.

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<sup>14</sup> Most capital expenditures occur at the regional and local levels. While they make up 6.6% of general government expenditures in 2018, they make up only 2.4% of combined federal expenditures and social security expenditures.

Figure 2. Structure of general government expenditures by economic transaction (2018)



Notes: Data for Chile are not available. Data for Turkey are not included in the OECD average due to missing time-series. Data for Australia, Japan, Mexico, New Zealand, Turkey and Indonesia and Russia are for 2017 rather than 2018. Data for Brazil are for 2016 rather than 2018. Data for Australia are based on a combination of *National Accounts* and *Government finance statistics* data provided by the Australian Bureau of Statistics.

Sources: OECD National Accounts Statistics (database).

The introduction of spending reviews provides a means for the Belgian authorities to address these matters and thus enhance the efficiency of public spending.

## International recommendations for Belgium

Belgium is currently in the preventive arm of the Stability and Growth Pact and subject to the debt rule. In 2019, the Council of the European Union recommended that the nominal growth rate of net primary government expenditure should not exceed 1.8% in 2019, corresponding to an annual structural adjustment of 0.6% of GDP. It also recommended that Belgium use windfall gains to accelerate the reduction of the general government debt ratio. As pointed out by the Council of the European Union in its 2018 country-specific recommendations, Belgium should “improve efficiency and composition of public spending at all levels of government to create room for public investment, notably by carrying out spending reviews. (Council of the EU, 2018<sub>[11]</sub>)” The document notes:

*“Total public expenditure as a percentage of GDP is above the euro area average. Despite its potential to stimulate growth in the long run, public investment is low by European standards, particularly in relation to total public spending. Not only is the public capital stock low, the quality of public infrastructure has also been eroded. Spending reviews can contribute to a smarter allocation of expenditure and support growth-friendly consolidation. At regional level only Flanders is planning to introduce a spending review approach in its budgetary process.”*

The recommendation to introduce spending reviews to improve the efficiency and composition of public spending at all levels of government to create room for investments was repeated in the recommendation



of the Council of the European Union issued in 2019 (Council of the EU, 2019<sub>[12]</sub>). The recommendation added that all levels of government need to co-ordinate fiscal policies:

*“Spending reviews and policy evaluations can help Belgium prioritise and improve the efficiency of public expenditure. Furthermore, spending reviews could be used to assess the efficiency of the indirect public support for business Research and Development, which is one of the highest in the European Union, as a percentage of GDP and continued to increase last year. Federal and regional authorities have recently expressed interest in integrating spending review in their budgetary mechanism.”*

The OECD made a similar recommendation in its 2020 economic survey: “Make regular spending reviews at each level of government an integral part of the fiscal framework.” (OECD, 2020<sub>[8]</sub>) The OECD underlines that “using regular spending reviews at each level of government would increase the efficiency of public spending by easing medium-term expenditure control and allowing a shift in expenditures to more productive uses.”

While both the European Union and OECD recommendations related to introducing spending reviews at all levels of government, this Note (and the whole project) focuses on federal level, including the social security sector.

# 3 Design and institutionalisation of spending reviews in Belgium at the federal level

## Objectives and scope of spending reviews

Spending review procedures in OECD countries can be categorised as selective or comprehensive. In *selective* procedures, the government decides each year on a relatively small number of reviews, usually from two to five, which are selected on the basis of criteria that refer to budgetary issues, such as unexpected growth of expenditures, overspending, or a change to government priorities. In *comprehensive* procedures, the government decides to review, in principle, all public spending on a periodic basis. This does not necessarily mean that all spending programmes have to be reviewed simultaneously in a given year. A comprehensive approach can mean that the government prepares a schedule by which all spending programmes will be reviewed over a period of four or five years.

The main consideration of a comprehensive review is that – because of its scale – it is possible for the budgetary implications to be greater. Another consideration is that they simplify the selection decision, as all policy areas are reviewed. Experiences in many OECD countries show that in the case of selective reviews, the selection decision can be controversial and involve political negotiation. In countries with a longstanding tradition of spending reviews, such as Denmark or the Netherlands, the Minister of Finance is involved when seeking agreement with a line minister on the objectives and scope of a review.

Many OECD countries with experience of comprehensive procedures have used the review procedures on a one-off basis to manage severe budgetary problems. It is not clear whether these countries will continue with comprehensive reviews once the fiscal deficit decreases. In practice, the important trigger for comprehensive spending reviews was sometimes a sense of urgency resulting from a difficult economic event. For example, during economic downturns it can be easier to build political support for large scale spending reviews, although scrutiny of expenditures and extension of fiscal space in view of new spending needs is equally important during upturns and downturns. Obviously, it is often more difficult from a political point of view to decide on savings during economic upturns. International organisations, including the OECD, generally recommend to build fiscal buffers when the economy is performing well in order to minimise budget cuts during periods of fiscal stress. The United Kingdom is an example of a country that has developed stable, ongoing practices for comprehensive spending reviews. In the United Kingdom, a spending review is used across the board during the preparation of a new medium-term expenditure framework. In the Netherlands, comprehensive spending reviews have mostly taken place in the years preceding parliamentary elections. This made it possible for political parties to use the results in electoral platforms and facilitated the preparation of a medium-term expenditure framework when they formed a

cabinet. However, it cannot be said that this incidence with election years equates to a stable practice, because in some election years comprehensive reviews have not taken place<sup>15</sup>.

A comprehensive approach may lead to a stark fluctuation of the workload of the CBA. This is particularly the case if the comprehensive reviews are organised in a single year, for instance in preparation for the establishment of a new medium-term expenditure framework (as in the United Kingdom or the Netherlands). This requires great organisational flexibility within the ministry, so that the number of staff involved in the spending review can shrink or expand as the medium-term expenditure is determined. The alternative to comprehensive reviews in a single year is to spread the reviews over a number of years. This solution eliminates the fluctuation of work but requires governments to build permanent capacities both in the CBA and in line ministries.

The advantages and disadvantages of selective reviews are often the mirror image of those of comprehensive reviews. Rounds of selective reviews may mean that some policy areas, particularly the ones with stable budgets and few policy problems, escape the process entirely. However, an advantage is that it is easier to develop a stable process and to institutionalise the procedure in the context of the annual budget procedure. Another advantage is that there is less fluctuation in the workload of the ministry of budget/finance and no need for periodic expansion and contraction of the policy review staff.

While more significant results could be reached through the application of comprehensive spending reviews, there are a number of factors that complicate embarking on comprehensive reviews by the Federal Government in the short and medium term. These are:

- low level of readiness among civil servants, especially in terms of organisational culture, policy evaluation skills, ability to mobilise big spending review teams quickly;
- uneven level of availability of data in different areas and weak integration of policy evaluation;
- lack of established multi-annual expenditure planning;
- lack of experience with spending reviews.

The factors listed above suggest that it would be prudent to start with selective spending reviews aligned with the budget process to gradually build capacities, reform the PFM system and improve spending reviews as a result of acquired experience.

The choice of approach to spending reviews depends on a number of factors. One of them is the objective of spending reviews. The practice of OECD countries shows that many countries move away from short-term cuts to reduce budget deficits towards improving efficiency in the medium-term, introduction of operational improvements to improve programmes' impact and realigning spending with policy objective. However, each case should be considered separately and the choice of the objective of spending reviews would depend on the specific situation of a country in a given period<sup>16</sup>.

The section on the economic and budget performance in Belgium in Chapter 2 suggests that budget savings should be one of the objectives pursued from spending reviews – at least in the next few years. Budget savings can take different forms:

- decreasing aggregate expenditure
- limiting the growth of expenditures in the future.

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<sup>15</sup> In 2019, a round of comprehensive spending review commenced in the Netherlands in order to support the cabinet formation of 2021, but it was not solely a government initiative, as the Parliament also prompted the government to take action. It may be possible though that the Netherlands is moving in the direction of a stable practice of comprehensive review in election years, as the current minister of finance seems to favour such an approach.

<sup>16</sup> In the Netherlands, there was a practice of having general targets (including -20% savings target) that were applied to all spending reviews, so the targets were not set by each ToR.

At the same time, it does not have to be the only objective. Spending reviews should aim to improve policies through better spending – increasing efficiency and enhancing the effectiveness of programmes. Thus, spending reviews can serve dual objectives in Belgium – creating fiscal space for limiting the growth of public expenditures or reallocation, and improving policies through better spending (both objectives could be pursued in parallel). The Terms of Reference (ToR) for each spending review should define the specific objectives of a spending review and set concrete targets.

A spending review cannot be booked in the budget as savings; the budget will have to contain specific measures that will generate savings. The analysis performed during the spending review process identifies policy options that put forward different levels of accomplishment of set objectives with different funding levels. Ultimately, this is always a political decision: how can the quality and quantity of delivered services be balanced with available resources? Accordingly, the magnitude of possible savings depends on two political decisions – the first one taken at the start of the process when defining the scope (which has to be translated in a baseline several years ahead), and the second one occurs once different policy options are proposed by the working group.

## Recommendations on the objectives and scope

1. The Federal Government should undertake steps to strengthen its PFM system, in particular to strengthen the medium-term expenditure framework and to undertake a thorough review of budgeting in Belgium<sup>17</sup>.
2. Spending reviews should be integrated in the annual budgeting process.
3. Given the current budget situation, the Federal Government should set dual objectives for spending reviews. First, to create fiscal space (enabling to reallocate resources to align with government policies). Second, to increase the efficiency and effectiveness of policies.
4. The Federal Government should start its spending review initiative with selective reviews (2-5 topics/areas per year) before commencing a comprehensive review to ensure that BOSA and line ministries have the capacities to conduct a comprehensive review.

## Governance

### *Roles of actors*

The experience of OECD countries provides different approaches as to governance of spending reviews. Most countries, like Ireland and the Netherlands, prefer a model where the principal actor is the CBA. Some countries assign the leading role to line ministries. OECD countries use external experts/consultants to varying degrees. Denmark, for example, uses external consultants to a large extent, and Spain assigns spending reviews to its independent fiscal institution. However, it seems that most countries try to find a balance between the roles of the different players, with the CBA being the main actor, with significant participation of line ministries, and with the use of external experts, as necessary. There seems to be a

<sup>17</sup> The Working Party of Senior Budget Officials (SBO) of the OECD undertakes country reviews of budgeting systems. The objective of budget reviews is to provide a comprehensive overview of budgeting in the country or jurisdiction to evaluate national and or sub-national experiences in light of international best practices and to provide specific policy recommendations. Other countries or jurisdictions comment on specific budgeting issues in the country or jurisdiction ("peer review"). So far, the OECD has completed 46 such reviews.

wide consensus that civil servants should have the responsibility for the technical part of spending reviews. Political engagement is essential at the start of the process (selection of the topics/areas and formulation of the ToR) and the end of the process (decision making).

Before the roles of the actors are described, one consideration is that in Belgium the role of civil servants in developing policies is limited relative to the role performed by political advisors of the ministers (see section Delineation between politics and senior civil service in Chapter 2). As such, it may make sense to ensure that political advisors are engaged in the process, namely at the beginning of the process of (selection of the topics/areas and the formulation of the ToR) and at the end of the process (decision making). The process of elaboration of policy options should be an administrative process.

A further consideration is whether spending reviews should be aligned with the budget process, or fully integrated into the process.

- Alignment with the budget process means that the spending review remains a separate process that is able to produce policy options in time to be taken into account during budget negotiations.
- Integration into the budget process means that the reviews become an element of the budget process and that they are included in the budget setting process.

One of the differences would be that when spending reviews are a separate process, there would be a separate meeting (or a separate point in the agenda) of the Council of Ministers (CoM) to discuss policy options.

When spending reviews are integrated into the budget process, a separate meeting by the CoM may not be needed to consider the recommendations from a review as the recommendations would be part of the budget negotiations and would be described in the budget justification document (*exposé général*). Following the OECD's discussions with BOSA, BOSA prefers the second option (i.e. fully integrating spending reviews in the budget process). Thus, the solutions proposed below will take into account this preference.

The governance of spending reviews to be considered for the Federal Government could be the following:

#### *Council of Ministers:*

The Council of Ministers (CoM) is responsible for making decisions on the topics/areas for spending reviews and on the final policy options, and for appointing the Supervisory Committee based on advice from BOSA. The CoM should also approve the ToR (which could be done together with the decision on topics/areas for spending reviews). The ToR is necessarily a political document as it may result in a change in the size and/or composition of the resources in a ministerial portfolio. The collective responsibility of cabinet ministers is only effective if ministers have early sight of the proposed objectives and the ToR of a review, including the timing and public disclosure of its findings. If the process of spending reviews is fully integrated in the budget process, it would not require a separate meeting of the CoM to discuss the results of spending reviews. Instead, their results would be used during budget negotiations (and would also be discussed during the July meeting of the CoM on the budget), as they would be described in the budget documents; the reference to the results of spending reviews that were undertaken and of the adopted measures would be included in the *Exposé général*, which accompanies the budget and is adopted by the government. This document could also contain reference to spending reviews planned for the forthcoming year.

#### *Supervisory committee:*

The purpose of the supervisory committee is to lead the working groups through the ToR of the spending review, clarify the rules of spending review if needed, monitor progress during the elaboration of policy options, and verify whether the report elaborated by a working group is in line with the ToR. The supervisory

committee should meet several times with the working group throughout the review process, including at the start of the process (to provide explanations about the ToR and the rules of procedure) and at the end of the process (to assess whether the report complies with the ToR and to approve the report). Before the processes are well established, a good practice would be a mid-term meeting to review the progress in the preparation of policy options and to check compliance with the ToR.

The supervisory committee should be composed of senior civil servants. Taking into account its role and the specificity of the governance at the federal level, it could be composed of: the secretary general of BOSA (as a chairman); the secretary general of the SPF Social Security; the secretary general of the SPF Finance; a representative of the college of the secretaries general of line ministries; a representative of the college of general managers of social security institutions; a representative of the college of secretaries general of other institutions; the budget director from BOSA (as a secretary). If there is no will to establish a separate body – the supervisory committee – its role could be taken by the monitoring committee, which is the body that already exists with similar composition<sup>18</sup>.

#### *Line Ministries:*

A very important actor in spending reviews are the line ministries. Line ministers are engaged in the proposals of topics/areas for spending reviews, and representatives of line ministries will play a leading role together with BOSA in developing policy options and discussing them with BOSA. Moreover, line ministries are responsible for the implementation of the CoM's decisions at the end of the review process.

#### *Minister of Budget:*

The Minister of Budget is responsible for the spending review initiative. It should be considered that the Minister of Budget proposes the topics/areas for spending reviews, based on consultations. The Minister can reject some proposals and can also add new proposals. The Minister of Budget puts forward the proposals and the ToR for spending reviews to the CoM. If spending reviews are integrated in the budget process, the Minister of Budget should discuss and agree with the Prime Minister and relevant ministers (trilateral meetings) which of the proposed options should be taken on board and included in the annual budget negotiations (before being included in the draft budget documents). The *Exposé général* would contain the reference to the completed spending reviews, decisions based on spending reviews that affect the given budget, and CoM decisions related to policy options in the mid-term.

#### *BOSA:*

BOSA will have a central role in different stages of the spending reviews:

- Chairing the supervisory committee (secretary general) as well as providing administrative support (budget director as secretary);
- Co-ordinating the selection of topics (collection of suggestions and putting forward proposals);
- Assisting with the preparation of the ToR;
- Participating in the working groups (and in general being part of the secretariat);

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<sup>18</sup> The monitoring committee consists of the Secretaries General of SPF's BOSA, Finance and Social Security, as well as the directors of ONNS (in charge of the collection of social security contributions), INAMI (in charge of financing of health care providers), INASTI (in charge of social security for independent entrepreneurs) and the head of the Inspectorate of Finances. The monitoring committee is tasked with the monitoring of evolution of expenditures and revenues and with the development of medium term estimates of expenditures and revenues on the basis of 'no policy change' (in a report published in July every year). The committee regularly prepares reports on the current situation and future development of the budget.



- Assuring the link with the budget process;
- Overseeing the monitoring on policy decisions resulting from spending reviews.

To implement the tasks mentioned above, BOSA should not only increase the capacity to conduct spending reviews, but also ensure the contribution of sectorial units, whenever necessary. If the Federal Government decides to introduce spending reviews on a structural basis, it may need a central function inside the SPF BOSA in order to co-ordinate and provide methodological administrative support to the process. The tasks of such a unit would include:

- co-ordinating the selection procedure;
- providing secretaries to the working parties that carry out the reviews;
- providing methodological support to the working parties that conduct the spending reviews;
- monitoring the progress of the working parties and providing advice to the chairpersons of the working parties with respect to the organisational and procedural rules and the terms of reference of the working parties;
- providing administrative support to the supervisory committee;
- managing the list of policy options;
- monitoring the implementation of the decisions that result from the spending reviews.

The development of policy options often starts in the CBA. In addition to the inputs of other actors, BOSA is to ensure that all important policy options will be included in the report. This implies that, in practice, it has to start every review *with a clear view of what the important policy options are* – this should be the task of sectorial units from BOSA. Moreover, BOSA has to ensure that its representatives are prepared to put forward these options in the working party. However, this task could be challenging, especially at the start of the process of spending reviews, as budget analysts may not be used to playing this role.

#### *Working Group:*

The task of the working group is to undertake analysis and develop policy options. It should be mostly composed of the civil servants of BOSA and relevant line ministries. A more detailed description of the composition of the working group is contained in the section Phase 3: Specificities related to the area of social security will be discussed in the following sub-chapters.

**Table 2. Roles of actors at different stages of spending reviews**

Stakeholder	Role in the process	Selection of areas	ToR and preparatory work	Elaboration of policy options	Decision on policy options	Monitoring and follow up
Council of Ministers	Approvals, political pressure	X	X		X	X (potential role of Parliament)
Minister of Budget	Political responsibility, strategic decisions	X	X		X	X
Supervisory Committee	Supervisory, coordination		X	X		
Working Group	Technocratic work			X		
BOSA	Support, coordination, lead (at operational level)	X	X	X		X

Regarding working groups, other options that could be considered are 1) a mixed secretariat with the participation of BOSA and a line ministry, or 2) the secretariat provided by a line ministry. The latter option could be considered for the area of social security (including healthcare). The decision of which organisation provides the secretariat should be included in the ToR.

## Review

Implementing spending reviews is a complex process where it is important to learn from previous exercises. In order to improve the quality, it is important to install a feedback loop. To install this feedback loop, the spending reviews should undergo an *ex post* evaluation to allow for reflection on how the design of the process of spending reviews could be improved, based on the accumulated experience. Such a review could be done by the Government itself given its knowledge on challenges and the functioning of spending reviews in practice. One example of such an approach could be Germany, which started spending reviews in 2015 and has already five years of experience. Learning from previous experience, Germany has introduced a number of improvements to their spending review design.

### Box 2. Improving the design of spending reviews (the case of Germany)

Germany started spending reviews in 2015. The implementation process resulted in changes to the design and practice of spending reviews over time. The main changes were the following:

- Expanding the composition of the working group: At the start, spending reviews were implemented by the Ministry of Finance and only one line ministry. Currently, a larger number of line ministries are involved. Moreover, at the start, the composition of the working group was fixed, while over time experts from implementing agencies were invited to join.
- Extending the data base: At the start, spending reviews relied upon the knowledge-base in the Ministry of Finance and line ministries. Over time greater use of surveys took place, external consultants were invited to contribute and scientific research was commissioned.
- Rotating venue: At the start, meetings were organised in the Ministry of Finance. Over time, alternating meetings between the Ministry of Finance and line ministries took place, and videoconferences were used.

Source: (Kelleners M., 2019[13])

While it is important that the Government draws conclusions, learns and improves processes, it is equally important to plan an external review. The advantage of such a review is the impartiality of the external actor and possibility to bring new ideas on board. Such a review could be undertaken by an international organisation. For instance, the OECD is working with a number of countries to improve spending review processes, including Czech Republic, Estonia, Poland and Spain. Alternatively, it could be undertaken by the Supreme Audit Institution (SAI). An example of the latter is the United Kingdom National Audit Office (NAO). In 2015 in the United Kingdom, the NAO completed a review of the government's spending reviews and in 2018 the NAO reviewed the government's planning and spending framework (National Audit Office, 2018<sub>[13]</sub>). The 2015 review resulted in the following principles for spending reviews (National Audit Office, 2016<sub>[14]</sub>):

- Evidence to support decisions
- An integrated view across organisational boundaries
- A longer-term view
- An understanding of the capability to deliver

- Timely information on performance to review success and hold departments to account.

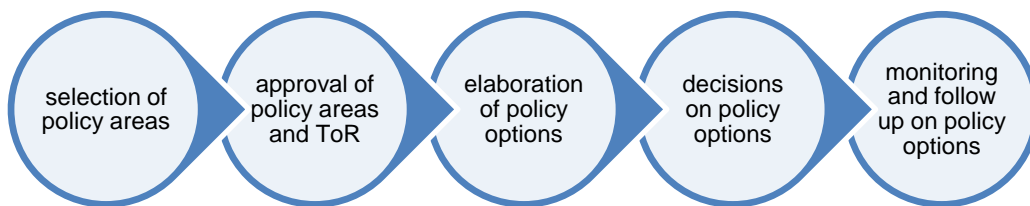
## Recommendations on the governance of spending reviews

1. At the political level, the process of spending review should be driven by the Minister of Budget, with considerable engagement of line ministers.
2. While political engagement is necessary at the start of the process (selection of topics/areas, ToR), and at the end of the process (decision-making on policy options and implementation), civil servants should have responsibility for the technocratic process of developing policy options.
3. The driving force behind spending reviews – at the technical, methodological and co-ordination level – should be BOSA. Line Ministries should be significantly involved.
4. It is important to increase the capacity within BOSA to conduct spending reviews, but also to engage sectorial units.
5. Consider appointing a supervisory committee composed of senior civil servants that would supervise the work of working groups and oversee the terms of reference make sure that they progress with their work in line with the deadlines and ToR.
6. At the end of each cycle of spending reviews, an evaluation of the process should be conducted and, where necessary, improvements should be proposed.

### A spending review process

The sections below contain a description of the different phases of a spending review process, from the selection of policy areas to the monitoring and follow up on selected policy options.

Figure 3. Illustration of a spending review process



#### **Phase 1: Selection of policy areas**

The selection of areas to review is of crucial importance. In some cases, when there is a strong sense of urgency or a high degree of political commitment, the selection may be straightforward. However, when there is less urgency, the question of incentives for spending reviews is particularly relevant. In countries where there is no urgent need to make spending cuts to consolidate total expenditure, a commonly used

incentive would be to ensure that the identified potential savings would stay within the ministry and the line minister is able to re-allocate spending to fund other policy initiatives. In a situation where some savings still need to be found, the question of incentives is more complicated. One option is to negotiate spending reviews in exchange for exceptions in across-the-board cuts or negotiate them whenever a ministry asks for funding to support new initiatives. Another option is to come up with a set of objective criteria, that is, focusing the discussion on criteria rather than on spending areas themselves.

In a selective spending review process, the CBA (BOSA in the Belgian case) typically co-ordinates the selection process. This consists of two stages:

- Collection of suggestions;
- Putting forward a proposal.

In the first stage, the Minister of Budget could invite a number of stakeholders to submit suggestions for new spending reviews, including the following:

- Line ministers;
- Prime Minister advisors;
- Inspectorate of Finance;
- Court of Audit<sup>19</sup>;
- Directorate General of Budget and Policy Evaluation of SPF BOSA;
- Federal Audit Service<sup>20</sup>.

For the area of social security-related reviews, this list could be expanded to include:

- Social security institutions;
- The National Labour Council;
- Budget and Finance Committees;
- INAMI and Commission of Budget Control (or Insurance Committee) in the area of healthcare.

Suggestions should concern policy areas or combinations of policy areas that are confronted with similar budgetary problems. A policy area is a set of instruments that address one or more policy aims. For the purpose of spending reviews, a policy area is a combination of line items, regardless of whether the policy area is also recognised in the budget as a separate programme. Suggestions can apply to all central government expenditures, including the off-budget expenditures in the areas of social security and public healthcare. Suggestions can also apply to tax expenditures.

As to the selection criteria, two sets of criteria are possible. One is based on criteria that are as objective as possible, the other is based on more subjective criteria. Objective criteria are, for instance:

- substantial overspending on multi-annual estimates in previous years (i.e. when line items are over-budget despite across-the-board cuts having been imposed);
- substantial underspending on budgetary appropriations in previous years;
- substantial growth in the multi-annual estimates exceeding the growth rate of GDP due to an increase in demand or costs of services under current policy;
- size of expenditures (more than a certain percentage of total expenditures);
- share of expenditures decided at federal level;

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<sup>19</sup> If Belgian authorities decide that it would not violate their independent status.

<sup>20</sup> If Belgian authorities decide that it would not violate their independent status.

- when a ministry asks for funding of new initiatives during the budget discussions, which are not sufficiently compensated by savings in the budget of that ministry and which result in considerable new expenditures<sup>21</sup>. The rationale for this criterion is that when new resources are requested, it would be logical to analyse existing expenses.

These criteria aim to ensure that the selection of a policy area should be based on objective and verifiable circumstances that lead to a problem in the budget process.

More subjective criteria are for instance:

- availability of good quality, relevant data for spending reviews;
- doubt about effectiveness or efficiency based on recent reports by universities or other research institutions, audit reports or critical press reports;
- diminished political priority as evidenced by policy platforms of political parties or recent declarations of party leaders;
- underperformance against indicators (performance budgeting);
- agreement between the CBA and a line ministry as part of a budgetary negotiation<sup>22</sup>.

These criteria aim to ensure that the spending review will lead to policy options that have a reasonable chance of being adopted. In practice the last criterion in the above list is particularly important since it implies that the line ministry agrees with the spending review and that it is not imposed against the wishes of the line ministry. Both objective and subjective criteria have their advantages and disadvantages. In general, objective criteria are easier to apply and not as politically controversial. On the other hand, they are less suitable to select the policy areas where the most promising policy options can be developed. Also, they may systematically exclude certain smaller policy areas that do not cause budgetary problems, but that have gradually moved down in the order of political priority.

Additional criteria that are tailored for the area of social security could be put forward. Participation in a spending review could be made mandatory if spending on social security exceeds the budget. Spending reviews could also be deployed if the finance or budget commissions indicate a potential budget overrun, according to art. 27, para 2 (Loi du 18 avril 2017 portant réforme du financement de la sécurité sociale, 2017<sub>[15]</sub>).

In the area of healthcare, spending reviews could be deployed in two situations:

- repeated overrun of the budget in certain sectors;
- failure to compensate increased expenditures by area-specific commissions.

The choice of topics for spending reviews, especially in the first years, could also take into account the level of complexity of spending reviews (increasing from year to year), which would allow to gain experience with relatively less complex topics in the first years. This approach can be illustrated by the German case, described in the box below.

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<sup>21</sup> For example, in Australia the rules around the budget process (which are reviewed and released every year) often require that any suite of new spending proposals come forward with a suite of savings proposals such that the net fiscal impact of proposals recommended by the Minister is neutral.

<sup>22</sup> Other criteria could be considered. For example, in Iceland one criterion was the capacity to conduct spending reviews within the line ministry and the budget ministry.

### Box 3. Choice of spending review areas: the case of Germany

In Germany, spending reviews have been implemented since 2015. The choice of areas to review take into account a set of determined budget criteria, but also the level of complexity of spending reviews. Starting with relatively easy spending reviews enables to achieve quick wins and scale up the process in the future, as the country gains experience with spending reviews.

- In the 2015/2016 review cycle, two topics were selected in order to get experience with spending reviews and test the procedures. The topics were: transport and a job training scheme for young foreigners – each topic was the responsibility of one ministry.
- In the 2016/2017 review cycle, two new areas were chosen – climate & energy, and housing. The topics selected were financially significant and involved six ministries, which increased the complexity of the exercise.
- In the 2017/2018 review cycle, the topics chosen were humanitarian aid and emergency relief, and public procurement. The latter was the first truly horizontal topic to be reviewed. The reviews involved the participation of six ministries and the report resulted in recommendations that affected the functioning of all ministries.

Source: Ministry of Finance, Germany.

### **Phase 2: Approval of areas/topics and terms of reference (ToR)**

In the next stage, BOSA prepares the proposed list of reviews and the Minister of Budget sends the proposal to the Council of Ministers for approval. The proposal has to include the ToR of each review. On the basis of the ToR, the ministers can judge the value of the exercise and the responsibilities held by the key people in the review process

The ToR should clearly define the policy area to be reviewed and the objective of spending review. Moreover, it must indicate the expenditures of the policy area on the basis of current policy. The total amount of these expenditures serves as the benchmark for the policy options to be developed. The benchmark must clearly identify all line items (*allocations de base*) that are included. The benchmark must be based on expenditure levels from the last year of the medium-term planning period (some years in the future). If reliable medium-term estimates do not exist, they must be estimated for the purpose of the spending review.

The ToR should also contain information on the background, rationale for the spending review, its scope as well as guidance on the policy options to be developed, including, when applicable, instructions about mandatory savings options. Finally the ToR should indicate the composition of the working group and the time schedule for the completion of the report. The ToR should be short and concise.

The proposal of the Minister of Budget would include around ten reviews (long list). It would be discussed by the federal core cabinet (that would shortlist proposals) and then approved by the CoM.



## Box 4. The terms of reference for a spending review on “Sustainable mobility”: the case of the Netherlands

### Assignment of the working group

The question posed to the working group is in which way the government could respond to the current demands for mobility, in particular by influencing the current demands and by better utilising existing capacities (both within and between the modalities). The working group is asked to prepare various policy and implementation options in accordance with the procedural rules for spending review (at least one 20% savings option on the medium estimate for 2023). The spending review has to pay attention to the potential counter-cyclical effect of infrastructure investment on the economy. In addition, in the analysis and in the development of policy options, the working group has taken into account, when relevant, the following cross-cutting themes: inclusiveness, determinants of the need for care services, productivity, digitalisation and the stabilising mechanism.

### Main questions

- What are – on the basis of current insights – the biggest challenges concerning sustainable mobility in the Netherlands?
- What are the biggest (current and expected) demands in the area of mobility and accessibility, both in urban and in rural areas, for persons as well as freight?
- What influence does the current developments have on demand in the broad context of the green energy transition, more sustainable mobility, technological innovation and mobility trends?
- What measures can the government take to meet those mobility challenges in an effective and efficient way?
- Which policy instruments, including financial incentives, can the government use to influence the demand for mobility?
- How can the government steer more effectively on the better utilisation of existing capacity via Mobility as a Service (MaaS), Smart Mobility, behavioural adjustment, stimulation of the “modal shift”, and/or use of new techniques?

### Demarcation of the policy area

#### *Expenditures included (millions of euros)*

	2019	2020	2021	2022	2023
Infrastructure fund excl network costs	4 102	3 464	3 538	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 harbours (Ch. 12 art. 18)	39	35	5	5	5

Policy options may include changes in regulatory and earmarked taxes that serve as policy instruments in mobility policy (motorway tax, motorcar tax, heavy motorcar tax/eurovignet and income tax on private lease of motorcars). Additional tax revenues do not count as savings.

### Composition of the working group

Ministries of Infrastructure and Public Works, Finance, General Affairs (PM's Office), Economic Affairs and Interior.

## Recommendations related to the approval of areas and Terms of Reference

1. The list of proposed areas for review should be put forward by the Minister of Budget, based on proposals coming from different sources and co-ordinated by BOSA.
2. For topics related to social security, the list of bodies contributing to suggestions could be expanded to include entities involved in social security (e.g. Labour Council, ORPSS, INAMI, INASTI, commissions on Budget and Finance, Commission of Budget Control). Specific criteria for the selection of spending review topics should be developed for the social security area. They could be linked to budget overruns and failure to compensate increased spending by sector-specific commissions.
3. The proposal should contain the terms of reference for each proposed review. The terms of reference should include: the demarcation of the policy area, the objective of the review, the benchmark expenditures (total expenditures of the policy area in the last year of the medium term planning period), guidance on policy options to be developed, composition of the working party and time schedule for completion of the report.
4. It could be considered to start spending reviews, in the first two or three years, with less complex and less sensitive topics.
5. The final decision on the areas to be reviewed should be made by the CoM based on the proposal of the Minister of Budget.

### ***Phase 3: Organisation of the working group***

While the previous phases (i.e. the selection of topics and the approval of ToR) and the next phase (i.e. decision making on policy options) are concerned with decision making at the political level, the process of drafting policy options should be an administrative process “protected” from political interference.

#### *Procedural issues*

The working group is responsible for drafting policy options. It is important that the composition of the working group and the rules of procedure ensure that the working group:

- is free from political pressure;
- presents reasonable policy options, i.e. that it is composed of experts with knowledge of the area and the functioning of public administration;
- is able to come up with innovative solutions;
- is able to produce its report on time, as this process should be aligned with the budget process.

The suggestions mentioned in the bullets below (procedural rules) are derived to a large extent from the Dutch experience with spending reviews. They aim at creating an environment in which the procedure can work well, and thus will produce timely options of good quality, as well as innovative and feasible solutions.

It is important to establish a number of procedural rules that further support the open character of the process. These rules could include the following:

- the report should describe policy options and their consequences in neutral terms;

- there should be no veto right for any participant in the working party on any policy option or on any relevant information on the consequences of any policy option;
- it could be considered having at least one policy option that leads to a substantial savings (i.e. a set percentage of the benchmark amount)<sup>23</sup>.

The former rule – that the work of the working group ends with a catalogue of policy options – is important to make sure that the proposal is concrete enough to be implemented. Furthermore, the requirement to produce more than one option should stimulate a technical approach and not put civil servants in the shoes of political decision-makers. Although there are different practices in this regard across OECD countries, the Dutch experience and the experience of the Flemish region show that the development of several, alternative options works well.

The latter requirement – an obligatory savings option – has two objectives. First, since substantial savings are usually only possible through far-reaching reorganisation of the policy area, the requirement stimulates fundamental thinking. One can think of such options as replacing a subsidy to incentivise good practices or to dis-incentivise regulatory tax, with roughly the same effects on the policy objective, or of a re-organisation of the executive agencies that are currently active in a given policy area. Second, since substantial savings are usually not possible by measures that are exclusively aimed at efficiency or effectiveness, the requirement obliges the working group to think about options that lower the service level in ways that cause minimal harm to the policy objectives. Without this requirement, working groups will often not pay enough attention to options that lower the service level at all. On the other hand, if spending reviews are triggered by new funding requests, it makes sense that instead, the savings options include the savings necessary to fully cover new expenditure, and different options of partially covering the new expenditures. If a spending review is decided to replace across-the-board cuts (of let's say 2%), the targets should be aligned and include, as one of the options, the level of across-the-board cuts. Not all targets need to be related to savings. They may also encompass other objectives related to effectiveness and policy improvements.

The budgetary consequences of all options described in the spending review report should relate to a benchmark. It is necessary to define a benchmark some years in the future, because policy changes take time to implement. Since these options can require legislation or re-organisation of executive agencies, a short term benchmark can be less meaningful. It is essential that a spending review in any case allows options that take a period of a few years to implement.

The procedural rules should prohibit options that lead to additional spending vis-à-vis the benchmark in the medium term. The benchmark itself may represent additional spending vis-à-vis the current level of spending. Options that increase spending compared to current spending are thus not prohibited, provided that they lead to savings, or at least are budgetary neutral vis-à-vis the benchmark.

The requirement that options should lead to savings vis-à-vis the benchmark or at least be neutral from a budgetary point of view, allows for the possibility of new spending that is fully compensated by savings. However, not every form of new spending is allowed as part of a policy option. The new spending initiative must be directly related to measures that generate savings. For instance, if the policy option consists of a proposal that the government takes on a new task, which is currently outsourced to the private sector, then the spending on the new government task is allowed if the budget expenditure for outsourcing is eliminated. However, new spending that is not related to the savings proposal, in the sense that the new spending is not required to compensate for the effect of the savings on the policy objectives, is not allowed. This is logical, because the aim of the spending review is to create room for new spending after the completion of the review, to be decided by politicians, and this aim cannot be achieved if the room for new spending is already filled up in the spending review itself.

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<sup>23</sup> In the Dutch case it is a minus 20% option.

Finally, the procedural rules should set the time span for the spending review. Based on the experience of OECD countries, it is wise to align spending reviews with the budget calendar, to have their results ready for budget negotiations. Some countries (like Denmark) allow for less time to implement spending review (5-6 months for all phases), while others allow more time (in Germany the whole process takes around 1 year).

The relatively short time span for a spending review is possible because it is not meant to encompass extensive new empirical research. In principle, it must make use of existing policy evaluations to the maximum possible extent, either those commissioned by the line ministry itself, or those by the Court of Audit or the internal audit service, or those conducted by external research institutions or universities at their own initiative. However, it should not be excluded that limited additional research is commissioned if it fits in with the time frame of the spending review.

Furthermore, a relatively short time span contributes to the political significance of the exercise. It means that the officials participating in the working parties have to produce their reports under time pressure and that their work must get priority over other activities. Evidence suggests that the “pressure cooker” model contributes to a sense of urgency and enhances the quality of the reports.

#### *Organisational issues and composition of working groups*

The organisational setup of spending reviews differs considerably between countries. An important feature in this respect is the role of the line ministries. They can dominate the process in the sense that they can decide on the contents of the spending review report, or they can be absent, in the sense that they can hardly influence the contents of the report. In both cases there may be a working party or team that is responsible for the report, but in the former case the working party consists mostly - or exclusively - of officials from the line ministry (or ministries), whereas in the latter case it consists mostly - or exclusively - of officials of the CBA. Neither setup is optimal. A process that is dominated by the CBA can lead to interesting policy options but these options may be rejected out of hand by the line ministry.

Given this, it is understandable that a number of countries have tried to avoid both situations and instead have attempted to develop a process that is well balanced between the CBA and line ministries. This can be done by the formation of working parties, in which both the CBA and the line ministry are well represented, but that also consist of officials from other line ministries (especially those for which the scope of responsibilities is somehow linked to the scope of a spending review) and external experts. Some good practices from other countries (Germany) suggest that engaging representatives of different line ministries could contribute to the quality of work of the working group. In particular, it would enable the development of policy options that take into account interdependencies with other, related policies. Furthermore, in some OECD countries, the Centre of Government is also involved in the working groups. Given that the role of the Chancellery of the Prime Minister in policy making is limited, it seems rational to engage the representatives of this institution only in cases where they have special expertise, for instance in reviews that are concerned with public procurement procedures. The resulting “mixed participation” approach is a middle way between a process dominated by the finance/budget ministry and a process dominated by the line ministry.

The federal authorities should carefully consider the feasibility of these approaches. If they feel that the mixed participation approach is feasible, it would be worthwhile to try it out, at least in the first round of reviews. The great advantage of this approach is that the expertise of the line ministry can be utilised fully in the description of the nature and consequences of the policy options. This will contribute to the informational value of the reports and prevent rejection of reports by line ministries because of poor technical quality.

The “mixed participation” approach can be strengthened further by a “mixed secretariat” rule, according to which the secretariat of each working party is composed of two secretaries who are responsible for the drafting of the spending review report. One secretary is appointed by the line ministry, the other by BOSA.

The secretaries are of equal rank and their division of tasks is taken care of by the chairperson of the working party. But, based on OECD country experience, the CBA alone often provides the secretariat. The third option could be also considered for Belgium – i.e. to assign the role of the secretariat to SPF Social Security – for spending reviews related to the area of social security.

Regarding the chairmanship of the working group, in OECD countries this role is frequently attributed to the CBA, which bears the ultimate responsibility for the spending review process. However, there are also cases where the chairman is an independent, renowned personality. This solution strengthens the mixed character of the working group and restricts, to some extent, the dominant position of the CBA. The question of who the chairman of the working group will be could also be decided separately in each case in the ToR.

With respect to the composition of the working parties, the role of external experts deserves special attention. External experts could include:

- academics who have conducted research in the policy area of the review;
- members of public or private research institutions;
- consultants or members of consultancy firms;
- officials of public bodies, independent from the government, for example the Federal Planning Office.

BOSA should carefully consider the role that external experts play in each review. In general, external experts cannot be relied upon to develop far-reaching policy options on their own initiative. However, if in specific cases BOSA thinks that external experts are better equipped to develop such options than the budget analysts of BOSA itself, it could pick the external experts with this aim in mind and clearly state in the ToR what it expects from the working party in this respect. If a specific policy option has already been decided upon, then it should be already outlined in the ToR how this option should be developed and which role the external experts would have to play for that purpose. There is a certain trade-off between the role of the budget analysts of BOSA and external experts in the working parties. To the extent that more is expected from the external experts, the ToR must be specific on what exactly they are supposed to do. The extent to which external experts are used could differ depending on which area is being reviewed<sup>24</sup>.

#### *Modalities for social security*

Because of particular governance arrangements in the area of social security, the composition of the working party for these reviews should be tailored to the social security sector. The specific nature of social security could require including civil servants from social security institutions in the working group. The modalities that may be considered include:

- The working group could include, besides BOSA and a relevant ministry, the civil servants of social security institutions working in the social security sector, like ORPSS, INAMI or INASTI and representatives of the commissions of budget and finance. The inclusion of the civil servants from relevant social security institutions in the composition of the working group is crucial, as they possess unique knowledge and access to relevant data. To reduce the pressure on them from management committees, it would be advisable to include the obligation to participate in spending reviews in the managerial agreement with social security institutions.
- It would make sense to consider the participation of external experts (academia, research) in the working groups, if such expertise is necessary for the working group to be effective. In the healthcare sector, engaging experts from several areas can help to take into account the effect of

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<sup>24</sup> For example for the areas where decisions at the federal level would have impact on the functioning of other levels, experts could be invited who are representatives of regions, communities or municipalities or experts in these areas.

proposed measures for other areas (for example in some cases, measures related to home-care can impact the functioning of hospitals).

- It is important to set the right targets, so that the working group considers policy options and is aware of the possible implications for changes to the legal framework.

The last two points/solutions could apply to all spending reviews, not only to the social security area. However, they are listed here, to emphasise that these solutions could be especially relevant for some spending reviews related to social security area (for example in healthcare), where spill over effects of applied solutions to other areas are frequent and more substantial policy options would usually require legislative changes.

## Recommendations on the development of policy options

1. Prior to conducting spending reviews, a set of rules should be prepared to ensure that the working team operates free of political pressure, prepares feasible and innovative policy options, and is able to propose them on time. These rules may encompass for example: formulating options; no veto right for members of the working group; allowing new spending initiatives only when they are directly linked to measures that lead to savings; defining a baseline for the policy options a number of years in the future.
2. Several spending targets should be set, which would allow political decision makers to set required levels of service and expenditure (for example including at least one target of significant savings, and at least one target which is neutral as regards the set benchmark). The spending targets should depend on the context and the method of selecting review areas/topics. Consequences of policy options should relate to the set benchmark (they should not exceed the benchmark).
3. Working parties should have a mixed composition with balanced participation of the representatives of BOSA and line ministries – the participation of a wider range of line ministers should be considered to take into account interdependencies between policies.
4. Participation of external experts could be considered, if relevant.
5. Modalities for spending reviews related to social security should be considered to ensure that working groups have access to data and relevant expertise.

### **Phase 4: Decisions on policy options**

The decision on policy options is a political decision. When putting forward such decisions to ministers, the first filter should be the supervisory committee, as the committee approves the spending review report and verifies that it complies with the ToR. The committee may correct the report and modify/delete certain policy options, if they are not in line with the ToR.

There are two ways of arriving at a political decision on policy options resulting from spending reviews. One is to separate the decisions from the budget process by taking the decisions to the CoM, rather than making them part of the budget negotiations.

An alternative way would be to fully integrate spending reviews in the budget process. In this case, spending reviews would be discussed during budget negotiations and during the CoM meeting on budget (end of July each year). The reference to the results of spending reviews that were undertaken and to the adopted measures would be included in the *Exposé général*, which is adopted by the government. Full integration of spending reviews in the annual budget preparation process results in the risk that – in the



absence of a MTEF in Belgium – spending reviews would focus mostly on short-term measures. Furthermore, since it would not be a separate topic on the agenda, the discussion on the result of the spending review could be short or even non-existing.

One issue that deserves more discussion is the question of transparency and the role of the Parliament. Some OECD countries, such as the Netherlands, make spending review reports public even before the Government has taken decisions on the policy options (these reports may thus contain policy options, which will later be rejected by the Government). This practice makes the whole process more transparent, stimulates public debate and can increase the pressure to take decisions on spending reviews. However, a prudent approach is to publish spending reviews after they are considered by the government.

Another question is the communication and dialogue with the Parliament. If spending reviews are meant to be a governmental tool to help prepare the budget proposal, it would be logical to communicate to the Parliament the spending review report as adopted by the government together with the draft budget submission.

If the option of fully integrating spending reviews with the budget process is chosen, they could be considered to be one part of budget preparations within the intragovernmental process. That is why, even if spending reviews are considered as an intragovernmental process, transparency on the process has to be guaranteed, for example by including the information on implemented spending reviews and recommendations, as well as the information on the planned spending reviews for the next year, in the *Exposé général*.

#### *Modalities for social security-related spending reviews*

How should decisions be made regarding spending reviews in the areas of social security and healthcare? The existing expenditures in these areas are, in Belgium, off-budget; however, decisions on policy options can be integrated in the budget process – i.e. when political decisions on the budget are taken. If the options resulting from spending reviews influence budget decisions, they would be subject to consultation mechanisms foreseen for the budget draft. If options resulting from spending reviews require legislative changes, they would undergo a normal process of consultations with social partners (social security institutions and the Labour Council).

In the area of healthcare, spending review options should be presented to entities that are in charge of elaborating and approving the healthcare budget (i.e. Insurance Committee and the General Council). They may use the results of spending reviews for making their decisions, but these results could also be used by the government, in case the General Council fails to approve the healthcare budget.

## Recommendations related to decisions on policy options

1. The Federal Government should react to proposed policy options. This could be done during the separate Council of Minister's session, or during the session when the Government discusses a draft budget.
2. Making spending reviews public (when they are completed), possibly accompanied by a Government statement, has obvious advantages, as it can feed public debate on policy options and policy reforms. As a minimum, the public and the Parliament should be informed of the decisions the government has adopted from the completed spending reviews and the areas to be covered in planned spending reviews for the coming year in the Exposé général.
3. In the area of social security, social partners will be involved in decisions related to policy options as far as they are involved in the budget elaboration process. In the area of healthcare expenditure, the spending review report should be presented to the Insurance Committee or the General Council.

### **Phase 5: Monitoring and following up on policy options**

Monitoring and following-up on the implementation of policy options usually attracts less attention than the process of development and approval of policy options. As a result, while working groups keep producing reports, the implementation of conclusions sometimes fails. This is especially true for policy options that are spread across several years.

The first issue is the responsibility for following-up. It is the line minister who is ultimately responsible for the implementation of policy options that are approved by the CoM. On the other hand, central co-ordination can help track progress and thus increase the chances of successful implementation.

Therefore, it is important to incorporate the reporting on the implementation of spending reviews in the process of budget reporting and budget setting. Making it a formal requirement to report on spending reviews twice a year (during the budget planning process and during the reporting on the previous year's budget) would increase pressure to actually implement policy options. BOSA or the commissions on budget and finance (as regards social security expenditures)<sup>25</sup> should be in charge of co-ordinating the analysis and implementation of reports. Besides periodic reporting to BOSA/budget and finance commissions, mandatory reporting to the Parliament could also be considered.

#### **Box 5. Monitoring implementation: the case of Italy**

In 2017, the achievement of the savings targets was monitored. After the approval of the 2018 budget law, the Minister for Economy and Finance and each line minister agreed detailed arrangements and deadlines to check on the state of implementation of the measures. These agreements were published on the website of the Ministry of Economy and Finance<sup>26</sup>.

In June 2018, ministries were asked to prepare a mid-year report on the actions taken to make the savings effective in the short and long run and to justify any budget discrepancies on items related to

<sup>25</sup> In the area of healthcare it should be the Commission for Budget Control or INAMI.

<sup>26</sup> [www.tesoro.it/documenti-pubblicazioni/doc-finanza-pubblica/index.html#contRevSpes](http://www.tesoro.it/documenti-pubblicazioni/doc-finanza-pubblica/index.html#contRevSpes)

the spending review savings. The report was transmitted to the Presidency of the Council of Ministries and the Ministry of Economy and Finance. Risk factors, obstacles encountered in implementing the measures and possible remedial actions were reported.

In April 2019, an end of year report was prepared and the Parliament scheduled a hearing on the topic.

Source: Ragioneria generale dello Stato - Ministry of economy and finance Italy

Channels of communication could also be set up with independent bodies, such as the Court of Audit, to better co-ordinate activities. A list of spending reviews (past, ongoing and future) could be one of the sources of information for the Court of Audit to use when it determines which topics should be audited in the coming years. This is an informal practice occurring in the Slovak Republic.

Enhancing a working collaboration between line ministries and BOSA to discuss dilemmas that occur during the implementation will be important during this phase.

Spending reviews are a source of valuable policy proposals. Some may be beyond the scope of a review and others might not be able to be implemented at the time of the review. This could be the case for far-reaching proposals that require greater consultation and longer preparation to implement. Similarly, some options from a review may require political consensus that may not be available at that point in time. BOSA and line ministries could retain a record of all proposals as the government may wish to return to them at a later date.

## Recommendations on monitoring and follow-up on policy options

1. Apart from the principal responsibility for monitoring which lays with line ministries, BOSA should have the responsibility of co-ordinating the monitoring and follow-up on policy decisions resulting from spending reviews, except for health related expenditures where the commissions on budget and finance should have this role.

## Integration with the budgetary cycle

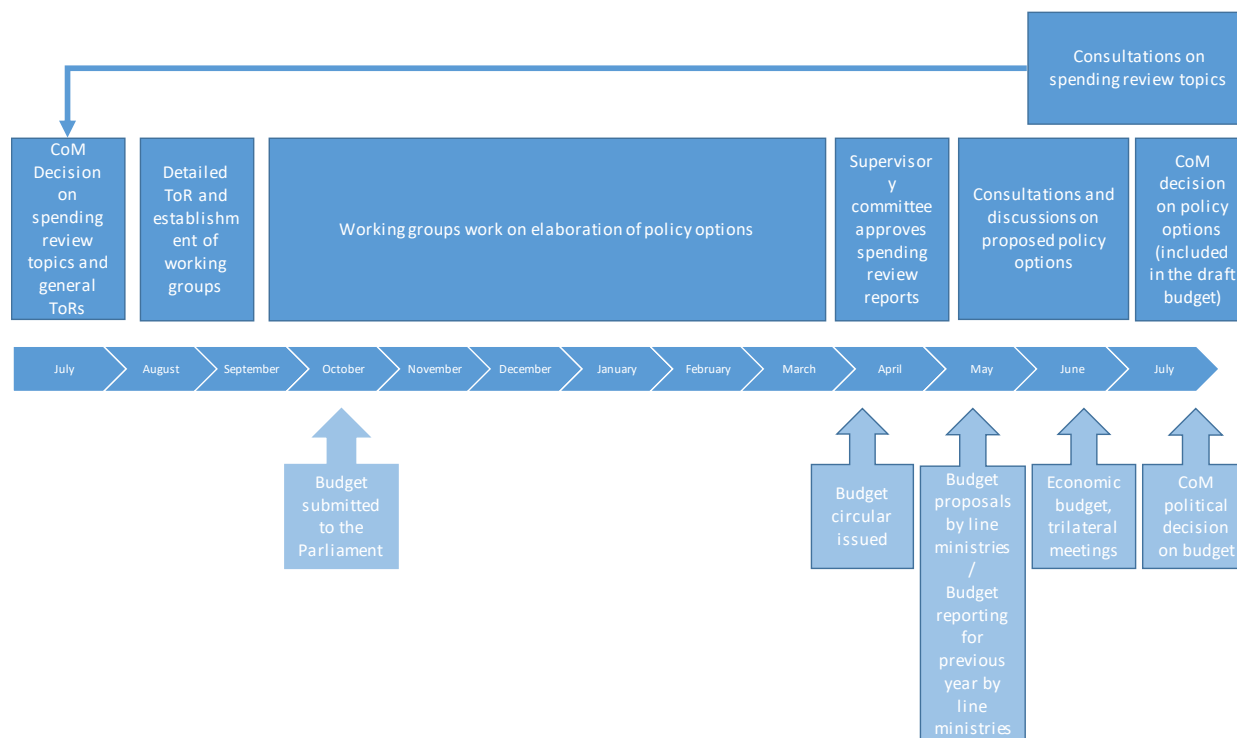
### *Integration with annual budgetary cycle*

Based on the experience of OECD countries, it is crucial to link spending reviews with the budget process.

By linking spending reviews to the budget process, policy options can feed directly into considerations and decision making during the preparation of the budget and the government can adopt additional new spending proposals without increasing aggregate expenditure. For this to work, the spending review timetable must ensure that policy options are available for the political leadership at the same time that it considers new spending proposals. Moreover, a link to the budget process ensures that the scale of spending reviews is adjusted to the government's budgetary objectives for aggregate expenditure (Robinson, 2014<sub>[16]</sub>). In countries where spending reviews are linked successfully to the budget process, the process is planned in such a way that options are proposed before budget negotiations start.

Figure 4 presents a proposed timetable for organising spending reviews, so that the reviews contribute to budget negotiations. It presents the option of fully integrating spending reviews into the budgeting process. Integrating spending reviews in the budget ensures that the reviews inform budget negotiations.

**Figure 4. Integration of spending reviews in the budget process**



In Figure 1, a decision on conducting a spending review would be taken in July and the spending review report would be ready before July next year – i.e. before budget decisions are made. The decision on spending review areas would be made when ministries have reported on the budget implementation for the previous year, which may be a source of information when considering future spending reviews. To provide a baseline, the ToR for a spending review would be prepared when the economic indicators for next year's budget are produced.

The process of taking decisions on the areas to review is planned in the period of budget discussions, as a spending review is one of the tools available to ministers in the budget negotiations. The timetable is planned in a way that gives working groups more than six months to develop policy options – a time short enough to maintain a focused effort, and long enough to commission additional data/analysis, if necessary.

A similar calendar could be used on the budget related to social security. For example, in the area of healthcare, spending review reports should be ready on time so that they can be considered by the Insurance Committee and the General Council (before September).

### ***Integration with multi-annual budget perspective***

As a medium-term expenditure framework is not operational in Belgium, the introduction of spending reviews should be considered together with reforms to introduce a MTEF. The absence of a strong MTEF does not mean that spending reviews cannot be implemented. The implementation of spending reviews may be more difficult than if a MTEF were already in place, because it is difficult to anchor fiscal decisions

on policy options in a medium-term planning process and to ensure that these decisions lead to the expected budgetary results. This is especially true for policy options that may require legislative changes.

In this regard, the implementation of spending reviews should go hand-in-hand with measures to implement a medium-term fiscal planning framework, as described in the strategic note (BOSA, 2019<sup>[3]</sup>).

Several solutions could be proposed to increase the chances for successful implementation of spending reviews in the absence of a MTEF. These are:

- defining a reliable benchmark for each specific review;
- implementing sound monitoring and follow-up mechanisms.

The significance of medium-term planning in relation to the spending review mostly consists in the need to define a reliable benchmark for the development of policy options and in the need to anchor political decisions on policy options in the expenditure framework. In the absence of a full-fledged baseline administration, benchmark expenditures can also be estimated for the purpose of concrete spending reviews. This can be done by BOSA, in collaboration with the line ministry if BOSA does not have enough information, as part of the formulation of the terms of reference.

Apart from this, more emphasis should be put on developing sound mechanisms for monitoring and follow-up on spending reviews (more detailed description in section Phase 5: Monitoring and following up on ).

## Recommendations on integrating spending reviews with the budgetary cycle

1. Spending reviews, to ensure optimal results, should be aligned with the annual budgetary cycle or totally integrated in the budget process. They are effective in fuelling budget talks when aligned or integrated with the budget time frame.
2. Limit the time for the implementation of a spending review to one year, with at least six months for the drafting of policy options.
3. Make sure that the results of spending reviews are available when budget decisions are made
4. Use the period of budget negotiations to discuss spending review areas/topics for the forthcoming round of spending reviews.
5. Given that Belgium does not operate a formal MTEF<sup>27</sup>:
  - spending review baselines will have to be estimated based on multi-annual budget estimates from the explanatory document to the budget proposal or based on specific estimates for a given area;
  - special attention will have to be paid to establishing sound monitoring mechanisms;
  - it is recommended that the Federal Government continues the work on strengthening the MTEF.

<sup>27</sup> Belgium, in its answers to the Performance Budgeting Survey, declared not having a MTEF, according to the OECD definition.

# 4 Starting with spending reviews in Belgium at the federal level

This Chapter is of technical nature and focuses on the practical steps that should be undertaken to prepare the implementation of spending reviews at the federal level. It contains concrete advice that can be used by BOSA for the preparation of an action plan and a timetable for the implementation of regular spending reviews, after completion of the three pilot spending reviews planned from February to June 2021.

In order for the first round of the spending review to take place, a number of issues must be prepared and/or decided in 2020 and in the first half of 2021:

- political support and a formal basis for spending reviews;
- capacity building for spending reviews;
- establishing of the main rules related to spending reviews.

## Political support and a formal basis for spending reviews

An important first step has been to anchor the introduction of spending reviews at federal level in the coalition agreement of the new Government that was formed on 30 September 2020<sup>28</sup>. Since the spending review process is necessarily political, as it may result in a change of the size and/or composition of the resources in a ministerial portfolio, it is crucial to have a political consensus on the use of spending reviews.

Introducing spending reviews into the coalition agreement has been an important political signal about the significance of spending reviews at the federal level. Following that, the Council of Ministers decided on 18 December 2020<sup>29</sup> to introduce spending reviews by approving BOSA's proposal to start three pilot spending reviews, in line with the OECD recommendations (tax expenditures, primary government expenditures and social security expenditures). This has been the first concrete step to the roll-out of spending reviews at the federal level.

Many features of spending reviews depend on the context of the country – this is also the case when it comes to choosing the formal basis for spending reviews. A common solution in OECD countries is to regulate spending reviews at the level of secondary legislation (or the executive order of the CBA) or guidelines issued by the CBA. A less frequent solution is to regulate spending reviews in primary legislation, be it through a separate law or the basic/organic budget law. Many OECD countries have managed to set up a well-established practice of spending reviews, without having to resort to a legal basis.

Choosing how to regulate spending reviews depends on the country's tradition. The following proposals could be taken into consideration by the Belgian Federal Government:

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<sup>28</sup> [https://www.belgium.be/sites/default/files/Regeerakkoord\\_2020.pdf](https://www.belgium.be/sites/default/files/Regeerakkoord_2020.pdf)

<sup>29</sup> <https://news.belgium.be/nl/implementatie-van-spending-reviews-binnen-de-federale-overheid>



- Spending reviews could be part of the budget circular, as one of the tools facilitating budget preparation and a dialog between BOSA and line ministries. The circular should focus on the procedure of spending reviews.
- Including an obligation to collaborate during spending reviews in the so-called management agreements (3-year contracts concluded between the minister and the subordinated public body). In these agreements, the minister may oblige the secretary general<sup>30</sup> to participate in a spending review in that period. This proposal should be considered in particular in the area of social security.

Before embarking on spending reviews, the government should set the main rules governing spending reviews and the main design features. These rules could take the form of a rulebook adopted by the CoM that would contain rules about the organisation of spending reviews' governance and the roles of actors, as well as the main elements of the procedure including the criteria for the selection of topics/areas. The above-mentioned rulebook should contain the rules that would not change from year to year depending on the area of review.

Other details, which are more specific to a given spending review in a specific area, should be set in the ToR, which is prepared before each spending review starts.

## Creating capacities for spending reviews

Before and during the roll-out of spending reviews, necessary capacities need to be established that will help the process to run smoothly.

First of all, BOSA will need additional (or re-allocated) staff to work on spending reviews. Establishing a spending-review co-ordination unit in BOSA should be considered. The unit will have to support the process of selecting areas for a spending review. Later on, the unit will provide the secretariat with working groups, as well as methodological support and monitoring of the group's progress. It may also be engaged in drafting parts of the report. Moreover, the unit will provide the secretariat for the supervisory committee.

By way of illustration on resourcing the unit, if there were four spending reviews organised during a single year and shared a secretariat for each working group provided in part by BOSA and in part by line ministries, then the unit would require a staff of approximately three full-time equivalents (FTEs), including the head of the unit (the staff of this unit could be increased gradually if required).

An analysis of the existing capacities within the sectorial units in BOSA would help to identify whether some units require training and/or a change in the composition of personnel. Capacity-building initiatives could be broader than training, and include activities like postgraduate studies, and temporary transfers to policy evaluation units.

Training will also be necessary for other participants of the review process, mostly the representatives of line ministries on public financial management. The training could be supported by establishing a network of experts that could:

- advise on methodological or sector-specific dilemmas;
- be engaged as potential external experts;
- advise on available research and materials that could be useful for spending reviews.

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<sup>30</sup> "Secretary general" refers to persons managing the day-to-day operations of public bodies, for example chairmen of the management committees of the SPFs and administrators general in social security institutions.

Such a network could encompass government employees specialised in policy analysis, review and evaluation (BOSA is already working on it), internal auditors, and working agreements with independent bodies, like the Court of Audit and/or academia.

Regarding the availability of data to undertake a review, this entails identifying the data that would be useful, the sources from where it might exist and the availability of these data for conducting spending reviews (also depending on the IT-infrastructure). This can be a lengthy process, and the authors of this Note were informed during the fact-finding mission that BOSA has already started working on this task, including to integrate human resource and financial data and – in the future – data from other functions for the purpose of spending reviews.

The above actions referred to gaining political support, creating a formal basis for spending reviews and capacity building are summarised in Table 3. An action plan and a timetable for the implementation of regular spending reviews will need to be developed by BOSA, to be applied after completion of the three pilot spending reviews so as to take on board the lessons learned from these pilots. The indicative timetable presented in Table 3 may assist BOSA in its planning.

**Table 3. Indicative timetable for the implementation of spending reviews at the federal level**

Action	Specific Actions	Responsible agent or organisation	Suggested timetable
Capacity building	<ul style="list-style-type: none"> <li>- establishing spending review Unit in BOSA</li> <li>- strengthening capacities of sectorial units in BOSA</li> <li>- developing training curricula and training of officials that may be engaged in spending reviews on policy evaluation techniques and budgetary issues</li> <li>- developing guidebooks, and other supporting materials by BOSA</li> <li>- integration of IT tools</li> </ul>	Mostly BOSA	<ul style="list-style-type: none"> <li>By June 2021</li> <li>By September 2021</li> <li>By July 2021 (curricula)</li> <li>By September 2021 (training)</li> <li>By September 2021</li> <li>Ongoing, long-term task</li> </ul>
Adopt spending review rules (alternatively, to state in a budget circular)	<ul style="list-style-type: none"> <li>- elaboration of spending review rulebook</li> <li>- adopt a spending review rulebook</li> </ul>	<ul style="list-style-type: none"> <li>BOSA</li> <li>CoM</li> </ul>	<ul style="list-style-type: none"> <li>By April 2021</li> <li>By July 2021</li> </ul>
Preparations for the first round of spending reviews (after pilots)			Starting from March 2021

Source: Authors

## Medium term developments

After gaining experience with selective spending reviews, the Federal Government should consider moving to a round of comprehensive reviews. Comprehensive reviews could be planned in such a way that the results are available before the political parties set election platforms (as is the case in the Netherlands). Alternatively, the coalition agreement could contain a list of areas/topics for spending reviews to be conducted during the new government's term.

Based on good practices in OECD countries, in the longer term, the focus of spending reviews in Belgium could evolve. Objectives related to finding fiscal space or to reallocate resources could move to increasing the effectiveness of policies. Spending reviews should become a regular tool of the government to help ensure public money is well spent.

## Recommendations on the implementation of spending reviews

1. As a first step, measures need to be taken to ensure political support for the introduction of spending reviews. This has been realised by anchoring spending reviews in the coalition agreement and through a political decision to carry out three pilot spending reviews.
2. At the same time, awareness raising activities for senior civil servants should be conducted.
3. The implementation of spending reviews may require developing a formal base tailored to the Belgian federal context that might go beyond referring to spending reviews in the coalition agreement, for instance by integrating it in the budget circular and – at an entity level – in management agreements.
4. It is necessary to create a spending review co-ordination function in BOSA and strengthen the capacities in BOSA's sectorial units.
5. Professional development activities need to be planned, aimed mostly at the development of policy analysis capacities both in BOSA and in line ministries participating in spending reviews.
6. Other capacity-building activities should include establishing networks of experts (including external experts) and integration of IT systems to get better access to data.
7. In the longer term (for example in the run-up to parliamentary elections in 2027), a comprehensive approach should be considered.
8. In the medium and longer term, authorities should consider shifting the objectives of spending reviews to focus more on improving the effectiveness of policies.

## Annex A. List of recommendations

### Recommendations on the objectives and scope

1. The Federal Government should undertake steps to strengthen its Public Financial Management system, in particular to adopt a medium-term expenditure framework, and to undertake a review of budgeting in Belgium<sup>31</sup>.
2. Spending reviews should be integrated in the annual budgeting process.
3. Given the current budget situation, the Federal Government should set dual objectives for spending reviews. First, to create fiscal space (enabling to reallocate resources to align with government policies. Second, to increase the efficiency and effectiveness of policies.
4. The Federal Government should start its spending review initiative with selective reviews (2-5 topics/areas per year) before commencing a comprehensive review to ensure the BOSA and line ministries have the capacities to conduct a comprehensive review.

### Recommendations on the governance of spending reviews

5. At the political level, the process of spending review should be led by the Minister of Budget, with considerable engagement of line ministers.
6. While political engagement is necessary at the start of the process (selection of topics/areas, ToR), and at the end of the process (decision making on policy options and implementation), civil servants should have responsibility for the technocratic process of developing policy options.
7. The driving force behind spending reviews – at the technical, methodological and co-ordination level – should be BOSA. Line ministries should be significantly engaged.
8. It is important to increase the capacity within BOSA to conduct spending reviews, and engage sectorial units.
9. Consider appointing a supervisory committee composed of senior civil servants that would supervise the working groups and oversee the preparation of the terms of reference.
10. At the end of each cycle of spending reviews, an evaluation of the process should be conducted and, where necessary, improvements should be proposed.

### Recommendations related to the approval of areas and Terms of Reference

11. The list of proposed areas for review should be put forward by the Minister of Budget, based on proposals coming from different sources and co-ordinated by BOSA.
12. For topics related to social security, the list of bodies contributing suggestions could be expanded to include entities involved in social security (e.g. Labour Council, ORPSS, INAMI, INASTI,

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<sup>31</sup> The Working Party of Senior Budget Officials (SBO) of the OECD undertakes country reviews of budgeting systems. The objective of senior budget official reviews is to provide a comprehensive overview of the budget process in the country or jurisdiction under examination, to evaluate national and or sub-national experiences in light of international best practices and to provide specific policy recommendations. The reviews also offer other countries or jurisdictions an opportunity to comment on specific budgeting issues in the country or jurisdiction under examination ("peer review"). So far 46 such reviews have been finalised.

commissions on Budget and Finance, Commission of Budget Control). Specific criteria for the selection of spending review topics should be developed for the social security area. They could be linked to budget overruns and failure to compensate increased spending by sector-specific commissions.

13. The proposal should contain the terms of reference for each proposed review. The terms of reference should include: the demarcation of the policy area, the objective of the review, the benchmark expenditures (total expenditures of the policy area in the last year of the medium term planning period), guidance on policy options to be developed, composition of the working party and time schedule for completion of the report.
14. It could be considered to start spending reviews, in the first two or three years, with less complex and less sensitive topics.
15. The final decision on the areas to be reviewed should be made by the Council of Ministers based on the proposal of the Minister of Budget.

### **Recommendations on the development of policy options**

16. Prior to conducting spending reviews, a set of rules should be prepared to ensure that the working team operates free of political pressure, prepares feasible and innovative policy options, and is able to propose them on time. These rules may encompass for example: the formulation of policy options; no veto rights for members of the working group; allowing new spending initiatives only when they link directly to measures that lead to savings; defining a baseline for the policy options a number of years in the future.
17. Several spending targets should be set, which would allow political decision makers to set required levels of service and expenditure (for example including at least one target of significant savings, and at least one target that is neutral as regards the benchmark). The spending targets should depend on the context and the method of selecting review areas/topics. Consequences of policy options should relate to the set benchmark (they should not exceed the benchmark).
18. Working parties should have a mixed composition with balanced participation of the representatives of BOSA and line ministries – the participation of a wider range of line ministers should be considered to take into account interdependencies between policies.
19. Participation of external experts could be considered, if relevant.
20. Modalities for spending reviews related to social security should be considered to ensure that working groups have access to data and relevant expertise.

### **Recommendations related to decisions on policy options**

21. The Federal Government should react to proposed policy options. This could be done during the separate CoM session, or during the session when the Government discusses a draft budget.
22. Making spending reviews public (once completed), possibly accompanied by a Government statement, has obvious advantages, as it can feed public debate on policy options and policy reforms. As a minimum, the public and the Parliament should be informed of the decisions the government has adopted from the completed spending reviews and the areas to be covered in planned spending reviews for the coming year, in the Exposé général.
23. In the area of social security, social partners will be involved in decisions related to policy options as far as they are involved in the budget elaboration process. In the area of healthcare expenditure, the spending review report should be presented to the Insurance Committee or the General Council.

### **Recommendations on monitoring and follow-up on policy options**

24. Apart from the principal responsibility for monitoring which lies in line ministries, BOSA should have the responsibility for co-ordination of monitoring and follow-up on policy decisions resulting

from spending reviews, except for health related expenditures where the commissions on budget and finance should have this role.

### **Recommendations on integrating spending reviews with budgetary cycle**

25. Spending reviews, to ensure optimal results, should be aligned with the annual budgetary cycle or totally integrated in the budget process. Reviews are effective at contributing to budget talks when aligned or integrated with the budget time frame.
26. Limit the time for the implementation of a spending review to around one year, with at least six months for the drafting of policy options.
27. Make sure that the results of spending reviews are available when budget decisions are made.
28. Use the budget negotiations to discuss spending review areas/topics for the forthcoming round of spending reviews.
29. Given that Belgium does not operate a formal MTEF<sup>32</sup>:
  - spending review baselines will have to be estimated based on multi-annual budget estimates from the explanatory document to the budget proposal or based on specific estimates for a given area;
  - special attention will have to be paid to establishing sound monitoring mechanisms;
  - it is recommended that the Federal Government continues the work on strengthening the MTEF.

### **Recommendations on the implementation of spending reviews**

30. As a first step, measures need to be taken to ensure political support for the introduction of spending reviews. This has been realised by anchoring spending reviews in the coalition agreement and through a political decision to carry out three pilot spending reviews.
31. At the same time awareness raising activities for senior civil servants should be conducted.
32. The implementation of spending reviews may require developing a formal basis tailored to the Belgian federal context that might go beyond referring to spending reviews in the coalition agreement, for instance by integrating it in the budget circular and – at an entity level – in management agreements.
33. It is necessary to create a spending review co-ordination function in BOSA and strengthen the capacities in BOSA's sectorial units.
34. Professional development activities need to be planned, aimed mostly at the development of policy analysis capacities both in BOSA and in line ministries participating in spending reviews.
35. Other capacity-building activities should include establishing networks of experts (including external experts) and integration of IT systems to get better access to data.
36. In the longer term (for example in the run-up to parliamentary elections in 2027), a comprehensive approach should be considered.
37. In the medium and longer term, authorities should consider shifting the objectives of spending reviews to focus more on improving the effectiveness of policies.

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<sup>32</sup> Belgium, in its answers to the Performance Budgeting Survey, declared not having a Medium Term Expenditure Framework (MTEF), according to the OECD definition.



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