

GUIDANCE ON EXPENDITURE REVIEWS FOR 2006

Cabinet has agreed that the Cabinet Committee on Government Expenditure and Administration (EXG) will oversee a programme of expenditure reviews and other enhancements to the public sector management arrangements. Ministers consider there are opportunities to improve performance and value for money by ensuring that resources are being directed to where they can be most effective and from better monitoring and reporting of results

The results of these reviews should help Ministers to make decisions that improve performance and value for money within and across votes. This document sets out guidance on the terms of reference for the reviews that is designed to ensure a consistent approach is adopted across the programme.

The guidance is in two parts – **Part One** sets out general procedural arrangements that apply across all reviews. **Part Two** gives particular direction on the contents of individual terms of reference.

Part One: General arrangements for all Expenditure Reviews

Role of EXG and Vote Ministers

- **EXG** will work with Vote Ministers to oversee a programme of expenditure reviews, in consultation with the relevant Vote Ministers and monitor the implementation of any recommendations arising from reviews, and in so doing, promote a performance culture generally. Terms of reference of individual reviews will be subject to agreement by EXG. [*for discussion on Monday 20 February - EXG may/will delegate oversight of the review process to a sub-committee, with support provided as required by an officials group.*]
- **Vote Ministers:** For each review in the programme, EXG will invite relevant Vote Ministers to work with them in all aspects of the process.

The role of officials

- Except as agreed otherwise, **Chief Executives** will chair review steering groups and be responsible to EXG for meeting the approved terms of reference, including milestone/progress reporting.
- **Central agencies:** Central agencies will contribute in several ways: They will have joint responsibility (with relevant agencies) to develop terms of reference; they will be members of review steering groups; Vote teams and performance specialists will monitor and may provide second-opinion advice through an officials group (OXG) to EXG on progress of individual reviews, and on draft and final reports on the results of individual reviews; in some cases, central agency staff may, as agreed in terms of reference, be seconded to project teams for individual reviews. Central agencies may also provide advice or guidance to individual review teams on analytical methods and approaches.
- **Officials Group (OXG)** – An officials group comprising representatives from each of the central agencies, Treasury, SSC and DPMC will assist EXG by overseeing and coordinating the programme, clarifying expectations and progressing

negotiations over terms of reference, monitoring progress against key milestones, helping to resolve disputes between officials, and providing advice on results and recommendations from each review.

Commitment to Expenditure Review timelines

The reviews commissioned in 2006 will inform the strategy phase of Budget 2007. Accordingly, except as otherwise agreed, all reviews should adhere to the following timeframes:

- Develop draft terms of reference for review by chair of EXG by **1 April 2006**
- Develop final terms of reference for review by chair of EXG by **15 April 2006**, before proceeding to EXG approval by **1 May 2006**
- Report draft results and recommendations for review by chair of EXG by **15 September 2006** before proceeding to EXG approval by **1 October 2006**.

EXG may wish to place some reviews on a faster track for development and approval of terms of reference than that outlined above. Any such cases will be discussed with the relevant Vote Minister.

Requirements for terms of reference

The terms of reference should be developed by the agency in close consultation with central agencies. They should be submitted to the chair of EXG and the relevant Vote Minister for forwarding to EXG.

The contents and coverage for individual terms of reference are set out in Part Two of this guide.

Progress reporting requirements

Each review should report progress **monthly** against key milestones (as agreed in the terms of reference) **to OXG and the chair of EXG**.

Progress reporting should include an assessment as to whether the review is on track to meet the terms of reference. Reporting should identify any issues that require direction or feedback from EXG; or issues that could affect the timing or reliability of results for each review, along with the probability of the risk materialising, its potential impact on the review, and mitigation actions.

Process for managing variations to terms of reference

If it is necessary to make any substantive changes to the scope and deliverables of approved terms of reference, these should be vetted by OXG and approved by the chair of EXG.

Funding of Reviews

All costs associated with the reviews will be met from within existing baselines. Individual agencies may negotiate cost sharing arrangements, for example over funding of costs associated with third party services.

Part Two: Particular requirements for Terms of Reference

Terms of reference should be written in such a way as to enable information and options on the agreed issues to be revealed to EXG. The terms of reference should provide an explicit statement of the work to be done to respond to each issue agreed by EXG.

Purpose, objectives and scope

The purpose, objectives and scope should be based on the need to meet the general objectives of the programme of reviews (set out below), and to resolve the particular issues set out in the short form scoping statement annexed to the POL paper [state reference]. The purpose and scope may also reflect any major themes or issues that surface during the process of developing the terms of reference.

Any limits to the scope of each review should be clearly stated, along with the rationale for any limitations or exclusions

While the specific objectives of each review will vary from case to case, in general the purpose is to identify opportunities to improve the focus on performance and value for money in key selected areas.

Approach and methods

The analytical approach should be described in broad terms along with particular methods that will be employed to reveal information related to the purpose and objects of each review. This may include desk or fundamental research, analysis, synthesis of findings and reporting. Note that a detailed project plan is *not* required as part of the terms of reference. [the following statements and key questions are subject to discussion on Monday 20 February]

With a few exceptions¹ the approach should:

- Provide clarity on what is being delivered through existing spending and the results that this is achieving;
- Enable Ministers to clarify the results they want from the area under review;
- Advise on the best intervention mix to achieve the desired results;
- Provide Ministers with a range of realistic options regarding future funding levels;
- Establish a framework for assessing future performance;
- Identify future information requirements;
- Consider whether any changes in institutional arrangements are appropriate; and
- Consider whether there are efficiency problems that might be further investigated.

Each review that relates to *organisational or programme performance* should provide authoritative and reliable responses to the following 6 key questions:

1. What is the historical trend in each area of major expenditure, corrected for inflation? (Why has this trend occurred, and what was the expected impact of spending decisions on outputs or impacts?);
2. Has the volume of output changed in proportion to real changes in expenditure? (Has efficiency increased, remained static, or is it declining; what factors have

¹ Some elements of this general approach may not be relevant to all reviews

- impacted on efficiency, and what is the strength of evidence between each factor and its impact?);
3. If real prices per unit output increased, did the quality of outputs and benefits improve as expected? (Were output quality changes, if any, effective, and what is the strength of evidence for this assessment?);
 4. Did outputs reach the groups that can benefit most? (Can coverage or reach be improved? When funds are short, who should get preference?);
 5. What demonstrable benefits should stem from major expenditures (intermediate and end outcomes)? Can the benefits claimed be demonstrated?
 6. What set of measures and performance targets should be reported against into the future to assure Ministers that major outputs are effective and efficient. Proposed measures should cover major aspects of performance that could not be presented or analysed during the review itself.

The terms of reference should indicate any whether it will be problematic to answer some or all of these questions above, along with the implications for assessing performance.

The approach and methods should provide an indication of the availability and reliability of relevant data sets, whether they are amenable to analysis, and the proposed analytical method to be used to achieve the purpose of the exercise².

Timetable of work and deliverables

Timelines should be consistent with the overall programme timelines in Part One above.

The terms of reference should indicate when key tranches of work will start and end; how these are integrated to meet the review deliverables; and also identify key milestones against which progress can be monitored.

Other standard matters to be covered in the terms of reference

- **Managing risks to individual reviews** - key risks should be identified along with their probability and impact and an indication of the how key risks will be managed.
- **Interdependencies with concurrent work** – If individual reviews traverse matters that are, or could be, subject to other review and reporting processes, any such overlaps or conflicts should be flagged along with any actions required to properly sequence or align the related workstreams and deliver the required information within the agreed timeframes.

Further information

For further information on this guidance, contact your Treasury Vote team or SSC performance specialist in the first instance.

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² If critical data sets do not exist, the approach statement should indicate what surrogate or alternative information will be used to meet the purpose of the exercise, and any caveats around those alternative sources of information.