STRATEGIC (FINANCE) PARTNERS

Improving Value for Money

What is Value for Money?

Value for Money (VfM) is about making the best possible use of available resources to achieve intended outcomes. There is no generally accepted definition of VfM, however the concept usually involves comparing the benefits or worth of an activity or service with its cost. In simple terms, if worth exceeds cost, it is considered to be good value for money, if worth is less than cost it is considered to be poor value for money.

Government agencies use different working definitions of what they consider to be VfM. These definitions focus on minimising waste, delivering outputs, achieving outcomes, improving equity, and/or maximising outcomes for a given cost – with priority often given to maximising outcomes.

The UK National Audit Office states that "*good value for money is the optimal use of resources to achieve the intended outcomes*" where optimal means "*the most desirable possible given expressed or implied restrictions or constraints*"[1].

How can VfM be improved?

VfM can be improved by identifying and changing (or stopping) low value activities or services. The process to do this involves the following steps:

- Measuring and Assessing VfM – measuring and assessing VfM across the range of activities or services provided by the agency. Quantitative and qualitative assessments are made across five criteria (economy, efficiency, effectiveness, cost effectiveness and equity).
- Identifying Low VfM – identifying activities or services which are low value/high cost and clearly documenting the value and cost drivers.
- Developing Options – developing options to increase the value or reduce the cost of low value activities or services, and getting stakeholder approval for preferred options.
- Implementing Change – preparing change proposals and engaging with your authorising environment to gain their approval.

The process does not need to wait for all the above steps be completed – when the results of the first assessments are received, agencies can focus on improving low value activities and services.

This paper focusses on the first step – measuring and assessing VfM.

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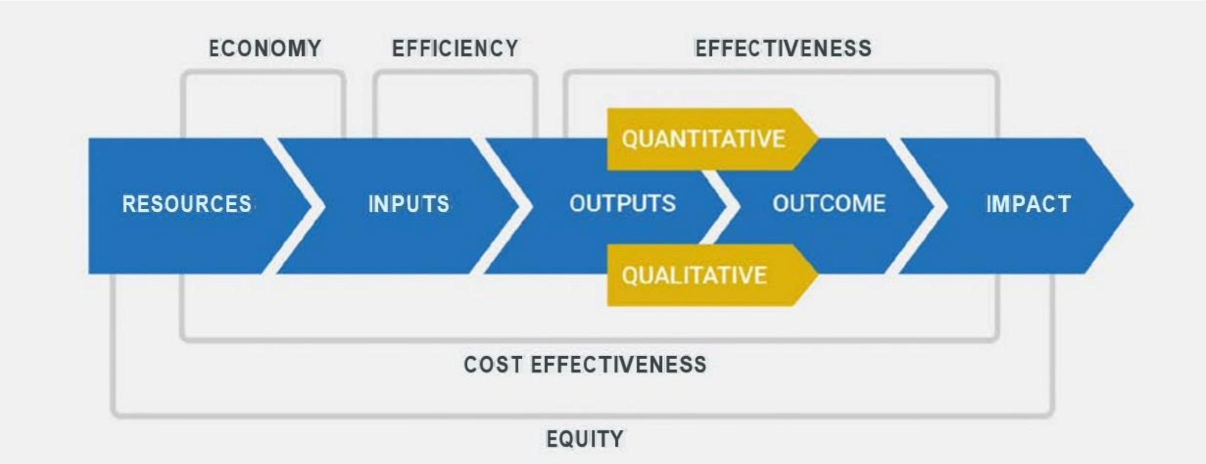
[1] National Audit Office UK, Value for money, https://www.nao.org.uk/successful-commissioning/general-principles/value-for-money/

Measuring and Assessing VfM

Assessment Criteria

Three criteria commonly used to assess VfM are *economy*, *efficiency* and *effectiveness*. For the public sector we add two additional criteria – *cost effectiveness* and *equity.* These five criteria fit together as follows[2]:



The criteria are defined as follows:

1. **Economy:** Obtaining the appropriate quantity and quality of resources at the lowest possible cost possible. The focus is on achieving the lowest cost for inputs of the required quality to deliver the best value for money.

2. **Efficiency:** Maximising the output generated from units of resource used. The focus is on optimising the processes by which inputs are turned into outputs.

3. **Effectiveness:** Ensuring an agency's activities or services are achieving their objectives or intended outcomes. The focus is on the qualitative aspects and results of activities or services delivered.

4. **Cost Effectiveness:** Maximising the impact of an activity or service relative to the resources applied. The focus is on the price and quantity of resources used.

5. **Equity:** Ensuring an agency's activities or services impact or benefit different groups of customers, stakeholders or communities fairly. The focus is on the delivery impacts of broader social or government programmes.

Measurement

VfM can be assessed against the five assessment criteria using a range of quantitative and qualitative measures. Quantitative measurement can largely be achieved using existing

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[2] *DFID's Approach to Value for Money (VfM)*. Department for International Development, United Kingdom 2011

measures from internal reporting and measurement processes. These include KPIs, output reporting measures, customer surveys, tendering panel assessments and business cases. These measures can be supplemented with financial analysis, which could include benchmarking, variance analysis, cost trends, CBA, BCR and NPV [3].

Qualitative measurement is achieved through a process called "Evaluative Reasoning". Although there is more than one way to approach this task, a widely used approach is to:

- Establish criteria of merit, worth, or significance – the aspects, qualities, or dimensions of performance that are relevant and important to forming an evaluative judgement;
- Define performance standards for each criterion to distinguish between 'excellent', 'good', 'acceptable', and 'poor' performance;
- Gather and analyse evidence of performance against the standards; and
- Synthesise the results into an overall judgement. [4]

A challenge in both quantitative and qualitative measurement in the public sector is quantifying non-monetary costs and benefits. This is often achieved using proxies such as using crime statistics as an indicator of community safety [5]. However, identifying and measuring proxies can be time intensive. The amount of effort expended should therefore be managed relative to the size and risks of costs and benefits.

Assessment

VfM across the five criteria can be assessed at a number of different levels from simple to complex – from activities to projects, programmes, functions and organisational outcomes. The assessment tools used will vary from quantitative to qualitative measures depending on the size, complexity and significance of the component being assessed, as set out below:

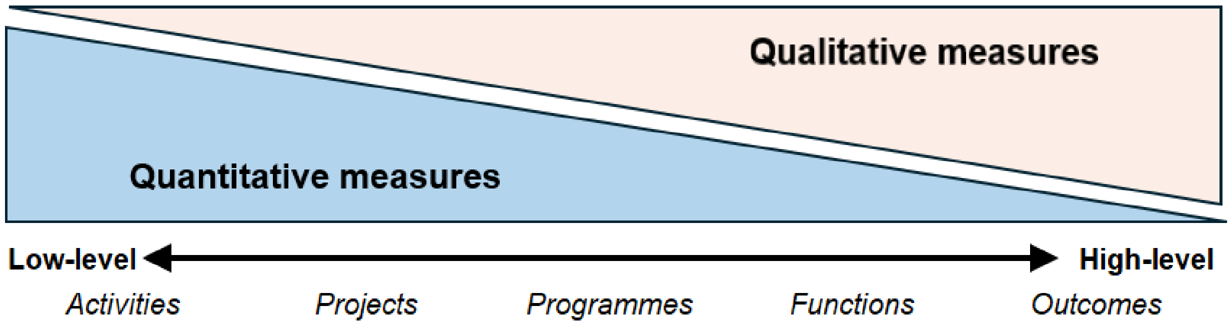

Figure 2: VfM Assessment

Given the complexity of VfM and the potential to consume considerable time and resources, agencies should start small by focussing VfM assessments on low-level discrete components

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[3] Cost Benefit Analysis, Cost Benefit Ratio, Net Present Value.

[4] Fournier, 1995 Fournier, D.M. (1995) 'Establishing evaluative conclusions: A distinction between general and working logic', in D.M. Fournier (ed.), Reasoning in Evaluation: Inferential Links and Leaps. New Directions for Evaluation 58, pp. 15–32.

[5] Examples of possible proxies for Fire and Emergency non-monetary benefits are set out in appendix 3.

such as projects and activities. This will enable progress to be made while internal capability and processes are developed. Down the track VfM assessments could be widened to cover cross agency functions and organisational outcomes.

Assessment Framework

Like most things in life, no one-size-fits all. We recommend using a combination of qualitative and quantitative methods to assess the five VfM criteria. As noted above, the assessment approach will vary from quantitative to qualitative measurement depending on the size, complexity and significance of the component being assessed:

Criteria	Questions	Assessment Tools
1. Economy	Can the activities and services be provided with fewer resources and at lower cost?	• Competitive tendering, government procurement practices • Financial Analysis (cost trends, variance analysis, NPV) • Benchmarking • Review of cost structure
2. Efficiency	Can a higher quantity or quality of activities and services be provided for the same level of inputs?	• Financial Analysis (cost trends, variance analysis, CBA, BCR and NPV) • Benchmarking • Review of business model or cost structure
3. Effectiveness	Do the agency's activities and services: support the delivery of core statutory roles and functions; meet the expectations of external stakeholders; achieve outcomes or objectives; and align with government priorities?	• Key Performance Indicators • Reportable Outputs • Outcomes framework • Intervention logic map • Assessment against core statutory roles and functions • Customer and external stakeholder feedback • Achievement of Government targets • Evaluation
4. Cost Effectiveness	Are there lower cost ways of delivering the same impacts? What are the downsides? Why are these alternatives not being used?	• Competitive tendering, government procurement practices • Financial Analysis (cost trends, variance analysis, NPV) • Benchmarking

Criteria	Questions	Assessment Tools
		• Evaluation
5. Equity	What are the impacts and benefits of the agency's activities and services on individuals, groups and communities? Are the impacts and benefits shared fairly?	• Customer and external stakeholder feedback • Key Performance Indicators • Reportable outputs • Evaluation

A common challenge in assessing VfM in many public sector agencies is quantifying non-monetary costs and benefits. This may be able to be achieved using proxies such as using crime statistics as an indicator of community safety. As identifying and measuring proxies can be time intensive, the amount of effort expended should be relative to the size and risks of costs and benefits. In some cases, the most important outcomes or benefits cannot be quantified, so retaining consideration of these factors will be critical in the overall assessment.

Where to start?

The key first step is to define the boundaries of the VfM project to ensure it is achievable:

- **Define your objectives** – identify what matters most to you and your key stakeholders: what critical outcome are you seeking to achieve, which aspect of VfM is the most important right now? Do you want to reduce costs, be more effective, improve efficiency, reduce resources, or something else?
- **Decide the scope** – which level do you want to focus on (projects, programmes, functions or organisational outcomes)? The scope of a VfM assessment will determine the most appropriate approach and level of resourcing.

Once the boundaries are set, a project plan can be developed and the project team established. Initial efforts should focus on the activities and services which consume the most resources or costs, present the greatest opportunities to improve value, and are easiest to change. This will enable the assessment methodology and processes to be developed and refined, and may uncover some "quick wins".

VfM is highly context sensitive. Every agency has its own unique operating environment and it will be important to explore the context, understand what makes the organisation tick, and identify key leverage points. The process to improve VfM therefore needs to be tailored to the agency and value should be considered through a range of qualitative and quantitative lenses.