

Briefing Paper

Value for Money

August 2008

Introduction

Since the Gershon report in 2004, Government has been looking for increased Value for Money across the public sector. This is considered in detail in this briefing paper.

Definitions

Value for money and efficiency are often used interchangeably but they are not the same. Indeed efficiency is not simply value for money it is but one element of it.

The Kensington and Chelsea Tenant Management Organisation defined Value for Money as:

“The correct balance between Economy, Efficiency and Effectiveness. Value for Money at Kensington and Chelsea Tenant Management Organisation is considered by the Tenant Management Organisation to be high when there is an optimum balance between all three, with relatively low costs, high productivity and successful outcomes in terms of service delivery to residents.”

Economy - This relates to minimisation of the costs of inputs (For example, reducing the salary costs of a staff team working in a call centre or the cost of a new Information Technology system).

Efficiency - This is concerned with maximising the outputs produced from these inputs (For example, increasing the number of repairs completed by each operative every week, or the number of calls answered by a Call Centre worker)

Effectiveness - This relates to achieving the desired outcomes. In the housing context these should be the outcomes desired by customers (For example, are residents happy that a call centre dealt with their query at the first time of asking or are repairs done to the customers satisfaction).

In the case of a call centre the organisation could deliver an economic service by reducing the numbers of staff in the centre, make them very efficient through incentivising them to maximise the number of calls taken but they could deliver a poor and not effective service.

There is evidence from the call centre business that managers do attempt to reduce the costs of staff by paying less or trying to make staff loadings for peak times of the day. They also tend to monitor by the average time taken to answer a call or the number of calls dealt with each day. But there is evidence that when this type of pressure is applied some staff respond to calls by simply picking up the phone and putting it down again (an answered call!) or simply taking a message and passing it on to someone else (an answered call but a dissatisfied customer). This type of call centre might be economic and efficient but is unlikely to be effective.

The optimum Value for Money position is where the required level of effectiveness is met while maximising efficiency and economy at the same time.

Inspection and Use of Resources

The 2008/09 financial year marks the introduction of a single assessment of use of resources across:

- Local authorities - London, metropolitan, unitary, county and district councils
- Fire and rescue authorities
- Police authorities and forces
- Primary care trusts

There are three themes to the inspection each of which has a number of Key Lines of Enquiry:

- Managing Finances
- Governing the Business
- Managing Resources

Managing Finances

The Key Lines of Enquiry are as follows:

How effectively does the organisation manage its finances to deliver value for money?

- Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?
- KLOE focus: The organisation:
 - integrates financial planning with strategic and service planning processes on a medium to long-term basis;
 - engages local communities and other stakeholders in the financial planning process;
 - manages spending within available resources and is financially sound over the medium term; and
 - recognises individual and collective responsibilities for financial management and values and develops financial skills.
- Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?
- KLOE focus: The organisation:
 - understands its costs, including whole life, transaction and unit costs, the main factors that influence these and how they link to performance;
 - takes account of this understanding of its costs and performance in decision making and commissioning; and

- identifies the scope for making efficiencies and is on track to achieve planned efficiencies.
- Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?
- KLOE focus: The organisation:
 - produces relevant, timely and reliable financial monitoring and forecasting information;
 - uses financial and related performance information to monitor performance during the year;
 - produces financial reports that are clear, relevant and concise to support strategic decision making;
 - prepares accounts that meet statutory requirements, financial reporting standards and present fairly, or give a true and fair view of, the financial performance and position; and
 - publishes reports that provide an objective, balanced and understandable assessment of the organisation's performance in the year.

Governing the business

The Key Lines of Enquiry are as follows:

How well does the organisation govern itself and commission services that provide value for money and deliver better outcomes for local people?

- Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?
- KLOE focus: The organisation:
 - has a clear vision of intended outcomes for local people which shapes its commissioning and procurement, and is based on an ongoing analysis and understanding of needs;
 - involves local people, partners, staff and suppliers in commissioning services;
 - seeks to improve the customer experience, quality and value for money of services through service redesign, making effective use of IT;
 - understands the supply market and seeks to influence and develop that market;
 - evaluates different options (internal, external and jointly with partners) for procuring services and supplies; and
 - reviews the competitiveness of services and achieves value for money, while meeting wider social, economic and environmental objectives.
- Does the organisation produce relevant and reliable data and information to support decision making and manage performance?
- KLOE focus: The organisation:
 - produces relevant and reliable data and works with partners to ensure the quality of partnership data;
 - understands the needs of its decision makers and provides them with information that is fit for purpose and is used to support decision making;
 - ensures data security and compliance with relevant statutory requirements; and
 - monitors performance against its priorities and targets, and addresses under-performance.
- Does the organisation promote and demonstrate the principles and values of good governance?

- KLOE focus: The organisation:
 - has adopted, promotes and demonstrates, the principles of good governance;
 - maintains focus on its purpose and vision;
 - demonstrates a strong ethical framework and culture; and
 - applies the principles and values of good governance to its partnership working.
- Does the organisation manage its risks and maintain a sound system of internal control?
- KLOE focus: The organisation:
 - has effective risk management which covers partnership working;
 - has a clear strategy and effective arrangements, including allocation of appropriate resources, to manage the risk of fraud and corruption; and
 - has a sound system of internal control including internal audit.

Managing resources

How well does the organisation manage its natural resources, physical assets, and people to meet current and future needs and deliver value for money?

- Is the organisation making effective use of natural resources?
- KLOE focus: The organisation:
 - understands and can quantify its use of natural resources and can identify the main influencing factors;
 - manages performance to reduce its impact on the environment; and
 - manages the environmental risks it faces, working effectively with partners.
- Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs?
- KLOE focus: The organisation:
 - has a strategic approach to asset management based on an analysis of need to deliver strategic priorities, service needs and intended outcomes;
 - manages its asset base to ensure that assets are fit for purpose and provide value for money; and
 - works with partners and community groups to maximise the use of its assets for the benefit of the local community.
- Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?
- KLOE focus: The organisation:
 - has a productive and skilled workforce;
 - knows in the medium to longer term what staff it will need, with what skills, and has plans to achieve this;
 - engages and supports staff in organisational change; and
 - has policies which support diversity and good people management.

Cost and Performance Matrix

The Audit Commission's Cost and Performance Matrix is a useful way of analysing an organisation and considering how to develop Value for Money.

P E R F O R M A N C E	H I G H	Aim to be in this quadrant for best Value for Money	This quadrant might be acceptable for very high priority services, or if high investment is required for a while
	L O W	This quadrant might be acceptable for low impact, low priority services	A service in this quadrant needs serious attention
		LOW COST	HIGH

The process is to consider which of the organisation's services are provided at a high cost or a low cost and which are providing a high or low level of performance; and then to categorise each service in one of the four 'boxes'. If a service is low cost and high performance it can clearly be regarded as offering good value for money. If a service is high cost and high performance that might be acceptable for a high priority service or a service where it is considered that a high level of investment is required for a while. If a service is low cost and low performance that might be acceptable if it is regarded as a low impact or low priority service. If a service is high cost and low performance that would indicate that it is a service that requires serious attention.

Embedding Value for Money

In June 2007 the Chartered Institute of Housing published 'Embedding Value for Money in Housing Association Services'. This report obviously concerns itself with English Housing Associations but is of wider interest because of some of the issues that it considers. It concluded that embedding value for money is about a host of characteristics, behaviours and processes permeating strategic and operational activity; and that collectively, these components may achieve a degree of critical mass where it may be said that a given organisation has a value for money culture.

A key message coming out of the Audit Commission's housing inspection programme is the need not only to develop value for money and procurement strategies but to embed these across the organisation so that all staff are aware of value for money and their contribution towards it.

It is clear that any effective Value for Money strategy needs to be led by the elected members or board and senior staff and the strategic/corporate/business plan of the organisation should make explicit the commitment to Value for Money and effective procurement. These are usually high level strategic documents setting out broad objectives which become more detailed and specific as they cascade through the organisation.

The Value for Money strategy should also be informed by a clear understanding as to where the organisation currently sits in terms of its value for money. There are a number of ways in which this can be done.

Operating Costs Index

English housing associations can make use of the Housing Corporation's Operating Costs Index which compares an organisation's costs with the Housing Corporation's econometric model. However this Index needs to be approached with caution as it may not be comparing like with like depending on the nature of an organisation's business or the way in which costs are allocated between different business-streams. Local Authorities can find reference to this index useful.

Benchmarking

Many public authorities are involved in benchmarking clubs where cost and performance information is shared to evaluate the linkages between costs and performance. A good understanding the linkages between costs and performance mentioned in numerous Audit Commission reports on high performing organisations.

This is of real value when the benchmarking is taken down to specific organisational activities. This enables individual teams to compare their own performance and costs with other members of the benchmarking peer group and to develop strategies to reduce costs and improve performance. For this reason benchmarking data which is kept at the senior management level is likely to have much less impact on value for money and performance improvement than if shared more widely in the organisation.

Linking the Value for Money strategy into operational activity

Whilst the value for money strategy may be seen as a starting point for embedding value for money, its high level aims must mean something to all staff in terms of their day to day activity. The high level Value for Money strategy agreed by the Organisation needs to be translated into a set of meaningful documents for staff across the organisation to use. This requires staff not only to understand the Value for Money strategy but also to consider the ways in which they can improve value for money in their organisation. Detailed operational plans need to be developed setting out the steps to be taken in each part of the organisation to deliver improved value for money. For example the:

- Finance department may have a target to reduce interest costs through refinancing
- Human resources team may decide to outsource their recruitment advertising to reduce costs
- Maintenance team may enter into a long term partnering contract with a contractor to reduce costs and increase quality
- Lettings team may have a procedure review and streamline their operational processes to reduce relet times whilst not increasing their costs

- Rents team may invest in additional welfare benefits staff to improve the debt collection rate in the organisation.

These team or departmental targets may then be refined further to develop individual staff targets.

Key elements of an embedded Value for Money Culture

According to the Chartered Institute of Housing and Housemark there are five key areas that need to be considered. These are considered to have relevance to all public services:

- Governance
- Financial stewardship
- Performance management
- Procurement
- Customer focus

Governance

The key role of the Council or Board is to set the strategic direction and to ensure that this includes value for money and procurement. The Council or Board need to ensure that the high level strategy is translated into detailed operational plans and the organisation's performance is monitored.

Financial stewardship

The organisation needs to be able to understand its costs, set its budget and control its costs effectively. In this regard it is essential that there is evidence of benchmarking, good budget setting, regular management accounts and evidence that budgets are being effectively managed.

Performance management

If Value for Money is to be embedded across an organisation it is important that this is reflected in its performance management. For example organisations should seek to ensure that service reviews are focussed on the high cost services, the ones that lose money and those that matter to service users.

Procurement

Any approach to value for money must include effective procurement. The organisation needs a procurement strategy and a coherent approach to procurement. The Chartered Institute of Housing says that in some organisations 'procurement activity is dispersed across the organisation with many different staff 'dabbling' in procurement decisions'.

Customer Focus

Customers need to be at the heart of the Value for Money strategy being directly involved in setting service standards, specifying services and being involved in choices about services. Designing services around customers needs is likely to improve the effectiveness of services and residents need to be involved in debates about the costs of services and their efficiency.

Conclusions

This final section concludes with some thoughts as to what public organisations need to do to secure better value for money and greater efficiency.

Strong Corporate Commitment

A common message with all organisations that achieve good value for money has been the strong corporate commitment to value for money. This is usually found to be a key objective in the organisation's Strategic and Business Plan with linked targets. A high performing organisation will have a Value for Money strategy linked to the Business plan with challenging targets.

In addition the Value for Money strategy must have clear ownership from senior management and the Board and ways must be found to cascade this strategy and commitment through the organisation.

A Benchmarking Culture

Again a common theme of successful organisations is that they have a good understanding of their costs and that they are carrying out meaningful benchmarking exercises.

Staff Commitment

Most organisations will have a value for money strategy but it is essential that all staff throughout the organisation have a clear understanding of the Strategy and what it means for them. This highlights the need to communicate the strategy, ensure that it is described in concrete terms and is linked to individual staff objectives.

Effective Procurement

The Audit Commission expects all high performing organisations to have an effective procurement strategy that is delivering value for money and efficiencies. Better Buys shows that this is not the case for housing associations and improving procurement practices is an essential step that poorly performing social housing organisations need to take.

The existence of Procurement consortia is making it much easier for smaller organisations to access professional procurement advice and benefit from procurement services.

There can be no excuse for housing organisations not taking what the Audit Commission call the low lying fruit of procurement savings; those savings which are easy to achieve.

Partnering

This has been shown to achieve significant savings not just in the up front costs of works or services but also in the on housing contract management and supervision costs.

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Our mission statement is 'Independence, Integrity, Value'. We therefore provide management consultancy and training from an independent standpoint that is designed to help the client to achieve their objectives. We are passionate about working with the utmost integrity. We believe that we offer the best value for money that is available today!

And we publish the popular free e-newsletter for public services – the 'Public Services News'. We are big enough to make a difference – but are small enough to care!