National Audit Office

Analytical framework for assessing Value for Money

"Good value for money is the optimal use of resources to achieve the intended outcomes."

The objective of our VFM work is to form a clear judgement on whether value for money has been secured in the area under examination. This analytical framework is designed to help teams do this in a consistent manner. It builds on the questions underpinning the definition of VFM we have chosen (see page 4).

At **planning stage** teams should follow Steps 1-3 set out on page 2. Step 1 requires them to decide what optimal arrangements would look like in the circumstances we are auditing. We define *optimal* as "the most desirable possible, given expressed or implied restrictions or constraints." Deciding what is optimal requires judgment and an understanding of what are reasonable restrictions. Step 2 requires the team to establish the totality of planned resources relevant to the subject being examined; Step 3 requires the team to identify all the planned outputs and outcomes.

At the **end of fieldwork** teams should repeat Steps 1-3. With the evidence they have collected under the three headings during their fieldwork they can now ascertain what has been achieved – towards establishing optimal arrangements and in terms of achieving outcomes – and what resources have been spent.

Then, having identified the performance achieved, teams should follow Steps 4-5 on page 3 and draw conclusions, in particular:

- on whether the identified performance was better or worse than planned (internal comparison); and
- how this compares with benchmarks beyond this particular case and point in time (external comparison).

By doing this teams can conclude on whether value for money has been achieved and should state their judgement in a clearly stated and succinct VFM Conclusion.

Having identified where the weaknesses in performance and arrangements lie, teams can then make robust recommendations designed to improve value for money (Step 6). The sequence of Steps 1-6 should act as the structure for the Summary of a VFM report.

Analytical framework for assessing Value for Money

Definition: Good value for money is the optimal use of resources to achieve the intended outcomes

1 Establishing what is 'optimal'

Establish the criteria against which performance will be assessed by agreeing what optimal arrangements for the system under scrutiny would look like. **'Optimal' is defined as "the most desirable possible given expressed or implied restrictions or constraints."** Teams need to consider what reasonable constraints they need to take into account.

Optimal planning: *Being clear about what is wanted.* For example:

- Well evidence based initiative with clear objectives, based on appropriate best practice/ industry benchmarks, agreed targets etc
- Realistic plans taking account of constraints and developed in the light of an understanding of risks
- Stakeholder support for plans
- Required resources in place to deliver to plan
- Clear understanding of what relevant costs should be

Optimal implementation: *Delivering or procuring well.* For example:

- Having the right technical and managerial skills
- Selecting the best delivery or procurement route
- Avoiding false economies
- Managing supply markets
- Obtaining economies of scale through programmes of investment or contracts
- Minimum sustainable impact of procurement
- Establishing clear and good VFM risk transfer

Optimal monitoring: *Being able to assess performance.* For example:

- Clear performance measures set and monitoring arrangements in place
- Sound performance management systems
- Sound policy evaluation process in place, with timely feedback
- Ability to make operational changes well in light of feedback
- Ongoing value testing
- VFM assessment methodology in place

2 Capturing the scale of resources

Identify the resources involved – initially in the plans and later, as outturn – including (where appropriate):

- staff costs
- consultancy spend
- consumables
- funding streams
- buildings
- savings
- cash
- revenue collected
- other resources (including finite resources such as energy, waste etc)

3 Identifying expected and actual outcomes

Identify the immediate, intermediate and long term outputs and (where possible) outcomes. This needs to be done initially in considering the planned achievements and later, when considering actual achievements, including (where appropriate):

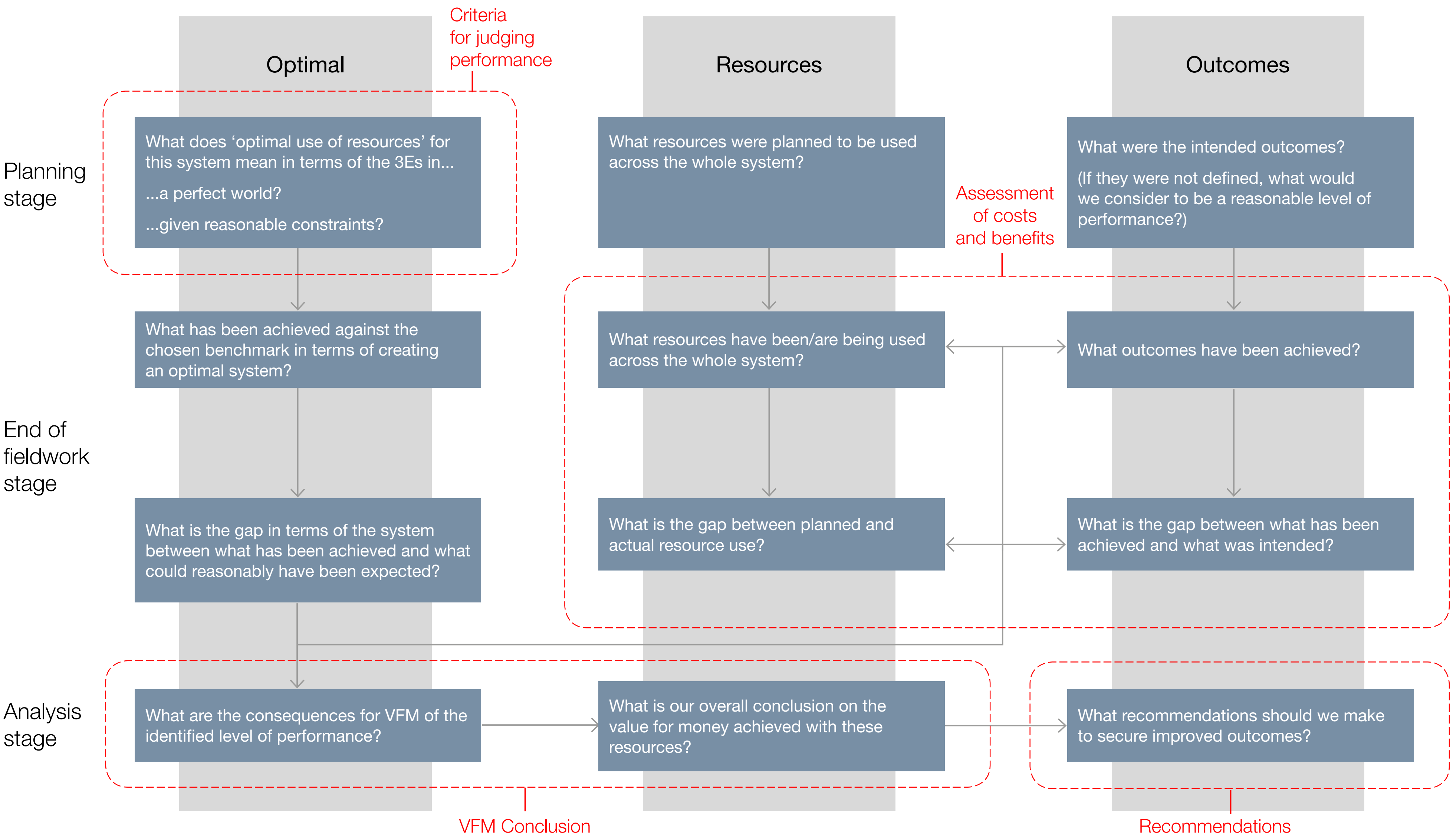
- performance against targets (e.g. against PSAs)
- delivery record (including quantity and timeliness)
- productivity record and trends
- unit costs
- whole life costs
- economy and efficiency measures
- quality of service (including customer satisfaction record)
- adverse, perverse or unintended consequences

4 Establishing the consequences for VFM of the identified level of performance (internal comparison)	5 Drawing an overall conclusion on the value for money achieved with these resources (external comparison)	6 Making recommendations to secure improved outcomes

Establish the consequences of the identified performance for value for money.
For example:
• were more/fewer resources employed than expected?
• was performance in terms of outputs/outcomes greater/less than expected?
• was performance better/worse than expected given the resources employed?
• do the arrangements in place match up to those of the chosen benchmark established at Step 1?
• were the outcomes achieved worth it given:
  ◦ the scale of spend involved
  ◦ the effort involved (and the opportunity cost)
  ◦ their sustainability or otherwise over the medium to long term (eg can performance last or is it vulnerable to decline?)
  ◦ the timing of benefits (short, medium or long term)
  ◦ does performance suggest there is a problem with VFM?
	Having identified achieved performance (1-3) and established how it compares with what was or could have been expected (4), finalise the VFM conclusion by comparing performance in this case with, where appropriate, external benchmarks such as:
	• with alternative actions (could better VFM have been achieved by doing things differently)
	• against accepted good practice or internal/external industry benchmarks
	• comparisons with past years – trend analysis
	• against stakeholder expectations
		Having identified shortcomings in performance, make costed and timed recommendations for the individual organisation or for the government system more widely, designed to improve the policy implementation process, and lead to better VFM, by:
		• correcting weaknesses
		• improving processes and practices
		• reducing costs
		• improving performance
		• securing savings
		• raising awareness of policy benefits
		• improving management information
		• ending activities or policy where necessary
		• reorganising processes and practices

Good VFM is the **OPTIMAL USE** of **RESOURCES** to achieve the intended **OUTCOMES**

Framework of questions for assessing VFM



Design & Production by NAO Marketing & Communications Team | DP Ref: 009192