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Assessing value for money in central government

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Summary

Governments in the UK spend billions of pounds of public money every year. Each has come up with different methods of assessing the value that they are getting from this spending.

The Public Value Framework (PVF) is one of the most recent systems intended to track value for money. It was designed by HM Treasury to evaluate whether Government departments are actually achieving what they set out to do with the various programmes that they run.

The Framework was initially designed by Sir Michael Barber, who had previously worked on similar projects under Tony Blair's administration. After its initial publication in 2017, it underwent several changes and simplifications, and now consists of a set of 35 questions (plus sub-questions under each one) which will help to determine how well a particular programme or department is achieving its intended policy outcomes. These cover four areas: the department or programme's goals and how it pursues them, the inputs that it uses to do so, engaging citizens and users, and developing system capacity.

Each Government department now has a published Outcome Delivery Plan, which will be updated regularly. These go into detail on each priority outcome that the department is hoping to achieve, along with the metrics that they will use to determine whether this outcome is being met. The intention is that this will help to identify areas where departments need extra support or where outcomes are under pressure.

The PVF is the latest in a long line of initiatives that various Governments have used to determine whether their policies are having the intended effect. The emphasis of these initiatives has varied – some have focused on the money being put into the programmes, some on the department's activities, and others on the resulting effect on society.

Other organisations also look into the value for money and effect of Government programmes. Some of the best-known include the National Audit Office and various Parliamentary committees.

Other countries use a range of approaches to tracking value for money in public spending. In many cases, formal frameworks and performance metrics make up part of the formal budget process.

1 The Public Value Framework

In 2017, the Treasury commissioned Sir Michael Barber (the former head of the Prime Minister's Delivery Unit – see section 4) to produce a report into improving the 'public value' of the public sector's activities.[1] The report looked at the problems of measuring productivity within the public sector, and proposed a new Public Value Framework which government departments could use to try to improve their outcomes.

The Treasury continued to work on the Framework, running pilots during 2018, and in 2019 published a revised version. Following feedback from the pilots, this simplified the system to try and make it clearer and more usable.

The new Framework moves away from the idea of just measuring the inputs and outputs of Government departments in an attempt to measure public sector productivity (see Box 1, below). Instead, it builds on the idea of Single Departmental Plans (which are discussed further in section 4), and seeks to "define everything that a public body should be doing in between" its inputs and outputs by providing a series of questions to use. The idea is for these to provide a way of judging how likely it is that these activities are actually taking place.[2]

Box 1: Measuring public sector productivity

Productivity in the public sector is notoriously difficult to measure. While it is relatively straightforward to see how much value a given input produces in the private sector – it is fairly easy to measure the number of hours that people work in a factory and the economic value of the things they produce, for example – this is much harder when looking at public services where their economic value is much more indirect, particularly when they are free at the point of use.

In many countries until the 1990s, including in the UK, the standard approach when measuring economic activity in the public sector was simply to assume that inputs are equal to outputs (implying that public sector productivity remains constant). In 1998, the ONS began using some directly-measured outputs (such as counting the number of completed medical procedures). This approach was further refined in the 2005 Atkinson Review, which made a

[1] HM Treasury, Delivering better outcomes for citizens: practical steps for unlocking public value, 17 November 2017

[2] HM Treasury, Public Value Framework and supplementary guidance, 13 March 2019, paragraph 2.3

number of recommendations on how to measure the output of public services, including quality-based adjustments in areas such as health and education.

Although the approach of measuring outputs is generally considered to be a good thing, it can lead to unusual results. During the Covid-19 pandemic, the decrease in measurable outputs for some public services (for example, the suspension of in-person teaching for several months) meant that GDP appeared to have fallen far more than would have been the case under a simpler system of measurement. The Office for Statistics Regulation is aware of the issue, and discusses it briefly on page 12 of their May 2021 report on UK productivity statistics.

1.1 The Framework's structure and process

The Framework gives guidance on the types of things that should be considered when assessing an organisation. It is broken down into a number of levels:

- At the top level, the Framework is grouped into four **pillars**: pursuing goals, managing inputs, engaging citizens and users, and developing system capacity.
- Each pillar is then broken down into 2-4 **areas to consider**. There are 13 in total across the Framework. For example, the 'pursuing goals' pillar includes things like 'understanding vision and goals', while the 'managing inputs' pillar includes 'quality of data and forecasts'.
- Each of these areas then has one or more **questions** associated with it. There are 35 across the Framework, and the idea is that the process of answering them will itself require a comprehensive and well-rounded view of the organisation.
- Each of these questions then has a number of **sub-questions** that will help to answer the main one. For example, question 7, "How does the public body plan to manage its financial resources?" has seven sub-questions, including "Is there a medium-term financial plan for the public body to live within its means?" and "Are there contingency plans in case funding pressures emerge or there are increases in demand?"

The full set of questions and sub-questions are listed, within their areas and pillars, in Annex B of the Framework document.

The Framework does not prescribe how the assessment should be carried out in practical terms – it suggests that there are multiple possible approaches, ranging from a single person checking on their own area of the organisation over the course of an afternoon to a full 4-6 week review.

However, it does suggest that the output of a review under the Framework should include a set of findings, recommendations for improving public value, and an overall red-amber-green rating representing how likely it is that public value is being maximised.

Although the use of the Framework is not as tightly focused on measurable achievements as, for example, Public Service Agreements were (with their emphasis on targets – see section 4), the second question of the Framework still calls for SMART objectives to be set that can meet the public body's goals and vision. SMART objectives (standing for specific, measurable, attainable, relevant and time-based) have been used in project management across the public and private sectors for years, and can be useful to measure progress towards goals.

1.2 The Framework's use so far

The 2019 Spending Round announced that the new version of the Framework was being embedded across Government, and that it would be used to update Single Departmental Plans with agreed outcomes that the departments would be aiming for, along with the metrics they would use to determine whether they had been met.

Ahead of the 2020 Spending Review, the then Chief Secretary to the Treasury Steve Barclay said in a speech that he wanted the Review "to tie expenditure and performance far more closely together than has been the case up to now" so that the Treasury would have "clearer sight of both the intended outcomes and subsequently evaluation of their delivery."[3]

This aim was echoed in the Spending Review itself in the autumn of 2020. The Review said that it "places a renewed focus on outcomes and ties spending and performance more closely together."

The Framework was also used in the Autumn 2021 Budget and Spending Review. Priority outcomes and metrics for all departments were published alongside the Spending Review, to be used in Outcome Delivery Plans, which are discussed in the next section.

[3] HM Treasury, Chief Secretary to the Treasury delivers his first speech in the role to thinktank Onward, 28 July 2020

2 Outcome Delivery Plans for Government departments

Since 2020, each Government department's settlement at Spending Reviews has included "priority outcomes" that would be used to judge whether the department was obtaining value for money from their settlement. These were then included in Outcome Delivery Plans, first published in July 2021, which replace the previous Single Departmental Plans (see section 4 for the history of these plans). As with their predecessors, the published Outcome Delivery Plans are not the full business plans that are used internally by departments, which are not made public.[4]

The first set of priority outcomes, included in the 2020 Spending Review itself, were occasionally somewhat vague. For example, one of the Ministry of Defence's priority outcomes was "Protect the UK and its Overseas Territories"; while this is certainly what the Ministry of Defence is supposed to do, it wasn't clear how this could be measured.

However, in December 2020 an additional document was published alongside the other Spending Review documents which gave provisional priority outcomes and metrics for each department. The metrics given were specific, and at least potentially measurable – so, in the case of the Ministry of Defence's priority outcome mentioned above, the metrics provided were "Number of operations undertaken" and "Impact of UK and Overseas Territories operations".

These metrics are then expanded upon in the Outcome Delivery Plans, which frequently go into some detail on each outcome and the programmes that are being put in place to achieve them. They are also typically linked to the UN's Sustainable Development Goals.

The Autumn 2021 Budget and Spending Review published new priority outcomes and metrics for all departments. These were expanded and updated from the previous year's provisional metrics, and will be used to update Outcome Delivery Plans covering the years from 2022 to 2025. The outcomes document says that the metrics, and reporting based on them, will "allow Ministers and officials to identify where delivery against priority outcomes may be under pressure" and that the new No. 10 Delivery Unit would provide support to departments in the Prime Minister's "mission areas"

[4] HM Treasury and Cabinet Office, The government's planning and performance framework, 14 June 2021

(these being levelling up, net zero, education, jobs and skills, health, and crime and justice).[5]

Many of the priority metrics now in place cover the responsibilities of different departments from multiple angles, and may help to protect against policies inadvertently harming one area of society at the expense of another. For example, the Department for Work and Pensions has both the overall employment rate (for ages 16-64) and the youth employment rate (ages 16-24) as priority metrics, which should help to ensure that its policies are helping a wide age range of workers. Several priority outcomes are also cross-cutting across departments, clearly with the intention of making sure that departments are working together on areas of common concern.

However, although the new priority outcomes are certainly more detailed than those in the 2020 Spending Review, not all are measurable. For example, several of the Cabinet Office’s priority outcomes, such as “Advance equality of opportunity across the UK”, do not have metrics associated with them. Instead, the document says that “The department will provide narrative reporting on progress for this outcome”, which implies that it may be difficult to tell whether the outcome has been achieved.

In the case of some other metrics, it isn’t clear how the metric is linked to departmental performance. For the Ministry of Defence, the metric mentioned above (“Number of operations undertaken”) remains in place from 2020. While this is measurable, it isn’t obvious why a large number of military operations would necessarily mean that the UK was being protected (and it also raises the interesting hypothetical possibility that the Ministry of Defence could increase its own performance metrics by initiating new military operations).

5 HM Treasury, Spending Review 2021: Priority outcomes and metrics, 27 October 2021

3 Parliamentary scrutiny of spending

One of the underlying principles of the UK's constitution is that Parliament has control over the Government's spending. This has been the case since at least the start of the eighteenth century.[6] It is therefore not surprising that Parliament has also historically taken an interest in examining how this money is spent.

The Exchequer and Audit Departments Act 1866 made Parliament's scrutiny of spending more formal than it had been previously, and created the role of the Comptroller and Auditor General (C&AG) in its modern form. The C&AG audits the accounts of Government departments and many other public sector bodies.

Since 1983, with the passage of the National Audit Act 1983, the C&AG has been aided in his or her role by the National Audit Office (NAO). This is an independent body – its staff are employed directly by the C&AG – accountable to Parliament rather than the Government, and with formal links to the House of Commons Public Accounts Committee (PAC). Further reforms were made as part of the Budget Responsibility and National Audit Act 2011; much more detail about the changes made by this Act and the context around it is available in the Library's briefing paper Budget Responsibility and National Audit Bill [HL].

The NAO continues to support PAC in its role examining public spending, and regularly produces reports looking at the value for money of particular projects. These reports often form the basis of PAC's inquiries, which the Government then has to respond to. The reports are also widely used by MPs in their work and by organisations outside Parliament. Media organisations and institutions frequently report on them and use their analysis to challenge and scrutinise the work of Government.

For example, the NAO's July 2020 report Review of the Town Deals selection process revealed details about the allocation of funding in the Government's Towns Fund which had not previously been published, and shaped much of the debate over how the money had been distributed. This may be the reason why later funds (such as the Levelling Up Fund and UK Community Renewal Fund) had clear methodologies for their funding allocations published alongside the prospectuses of the Funds themselves.

Departmental select committees also carry out an important role in scrutinising public spending. Each committee often looks at the spending of

6 See Auckland Harbour Board v The King [1924] AC 318, at 326–327, referenced in Erskine May, paragraph 33.8

its associated department as part of its work on scrutinising the department's operations. The Treasury Committee also carries out regular inquiries on Budgets and Spending Reviews, allowing for scrutiny of public spending at a high level.

Although Parliament's scrutiny of spending after the fact is extensive, it typically makes very little use of the powers it has to control this spending. The Estimates process, in which the Government lays its spending plans for each department before Parliament twice a year, theoretically allows Parliament to make changes to these plans. However, Parliament's role in the process is limited to only proposing reductions in spending, and in practice this does not happen – few of the Estimates are debated each year, and no amendments to the Government's spending proposals have been passed since 1921.[7]

This lack of Parliamentary control before money is spent does mean, however, that spending plans can change very quickly without needing to be reviewed first. During the Covid-19 pandemic, Government departments used emergency funding (such as that provided via the Contingencies Fund) to rapidly put new measures in place to cope with the effects of the pandemic. Scrutiny of this spending has since taken place after the fact, with the NAO and Parliamentary committees looking into various aspects of it. For more on this, see the Library's briefing on Public spending during the Covid-19 pandemic.

3.1 Sources of spending data

The Government publishes information on its spending in a number of different ways. Some of the main publications include:

- Departmental Estimates, published twice per year, which are the formal amounts of money each department requests from Parliament (each department also sends an Estimates memorandum to its relevant select committee, which includes further detail on the money it is requesting);
- Departmental annual reports and accounts, which include not only the amounts of money spent by each department and public body, but also a description of what the department has done with that money;
- Public Expenditure Statistical Analyses (PESA), published once per year by the Treasury, and giving departmental and functional spending totals for spending over the previous five years (and spending plans out to the end of the current Spending Review period);
- Public Spending Statistics, published quarterly, which update the information given in the previous PESA publication;

7 House of Commons Library, The Estimates: Parliament's role in authorising Government spending plans, 10 July 2018

- Whole of Government Accounts, published annually, which consolidates the accounts of the public sector and presents it using the same system of accounts as is used by the private sector.

Although these publications represent a large overall quantity of information, the different ways in which they are presented mean that the figures are hard to reconcile with each other and often hard to compare across time. With the exception of departmental annual reports, they also focus almost entirely on the inputs to Government departments, with little detailed information about how the money has been used. This makes it difficult for Parliament or for members of the public to assess value for money.

4 Internal Governmental control of value for money

In 2019, the Institute for Government (a think tank examining the working of government) published a report on The Treasury's responsibility for the results of public spending. Chapter 3 provides a detailed overview of the ways in which Government has tried to control spending and measure the impact it has, covering the period since Margaret Thatcher took office in 1979. Some of the different methods that different Governments have used include:

- "Scrutiny programmes" and the Financial Management Initiative (FMI), introduced under Thatcher. Both were intended to cut out wasteful or unnecessary spending in departments, and made ministers as well as civil servants responsible for results. The Cabinet Office and Treasury set up the Financial Management Unit (FMU) in 1982 to help with creating plans under the FMI.
- The "Next Steps" report, published in 1988, which recommended the establishment of executive agencies to carry out the executive functions of government. The idea was to separate the creation of policy from its delivery, and the Next Steps Unit (NSU) was set up to carry this out.
- Different departments and agencies set up their own internal frameworks to track their performance during the 1980s and 1990s. Under Tony Blair's administration, two new initiatives were set up that consolidated these: a greater focus on performance targets, and Public Service Agreements (PSAs) which put these targets on a formal basis.
- In 2001, Blair's government also set up the Prime Minister's Delivery Unit (PMDU), which was intended to coordinate PSAs and bring them under more central control.
- Under the coalition government in 2010-15, PSAs were abolished and replaced with Departmental Business Plans (DBPs). These shifted the focus from targets to actions – in other words, they listed what each department would do and by when, rather than what they sought to achieve. The plans were therefore a way of laying out how each department would fulfil its part of the coalition's programme for government, the agreement between the Conservatives and Liberal Democrats that documented their priorities at the time.[8]
- Under the Conservative government in 2016, DBPs were renamed to Single Departmental Plans (SDPs), which were themselves renamed to

[8] Prime Minister's Office, The Coalition documentation, 20 May 2010

Outcome Delivery Plans (ODPs) in 2021. These are now intended to cover everything that each department does and bring together its inputs, outputs and outcomes (see Box 2, below, for more discussion of what this means). According to the NAO, SDPs (and by extension, ODPs) are supposed to be "comprehensive, costed business plans".[9] The full business plans underlying ODPs are not published, but summary versions are available on gov.uk.

Box 2: Inputs, outputs and outcomes

The various different methods that have been used to control spending have shifted the focus of different governments between three key concepts:

- **Inputs** – what each department puts into its activities. This typically refers to funding. An input-focused approach is therefore one that concentrates on setting spending levels for each department.
- **Outputs** – what each department produces, in terms of goods and services. These are typically straightforward to measure – it might be the number of teachers employed, for example.
- **Outcomes** – what result the department's activity has had. These may be measurable (for example, improving life expectancy) or they may not (for example, increasing peace and security).

An approach such as the Financial Management Initiative, then, would be classified as primarily input-focused. Approaches that involved heavy use of performance targets, such as PSAs, have more of a focus on outputs and outcomes.

9 National Audit Office, Improving government's planning and spending framework, 26 November 2018, summary paragraph 15

5 Assessing value for money in other countries

The Organisation for Economic Co-operation and Development (OECD) has produced a list of ten recommendations for budgetary governance, one of which is that governments should "ensure that performance, evaluation and value for money are integral to the budget process".[10] This includes a number of extra details, including that governments should:

- Help parliaments and citizens understand "what public services are actually being delivered, to what standards of quality and with what levels of efficiency"
- Present clear and understandable performance information, limited to a small number of relevant indicators for each policy area
- Evaluate and review spending programmes regularly and objectively
- Periodically look at overall spending, rather than just individual programmes, to check that it is aligned with objectives.

A later OECD report lists a number of different approaches that governments can take to implement these recommendations. In particular, it mentions the process of "performance budgeting" – broadly, any method of budgeting that also includes information on "what agencies have done or expect to do with the money provided".[11] The vast majority of OECD member countries include some form of performance budgeting, usually through including the metrics that will be used to gauge the performance of government programmes alongside the budgets for those programmes – a few examples follow.

Canada

The Parliament of Canada is a Westminster-style system, like the UK Parliament, so it is a useful point of comparison. Canada has introduced several systems for tracking the money that is spent on government programmes. In 1982 the Canadian government changed the spending Estimates document to include documents for each department, laying out their programmes, their planned and actual results, and any performance data.

As of 2016, the Canadian federal government is also using a similar system to the Public Value Framework, in which each federal department produces a

[10] OECD, Principles of Budgetary Governance, retrieved 26 November 2021

[11] OECD (2019), *Budgeting and Public Expenditures in OECD Countries 2019*, OECD Publishing, Paris, https://doi.org/10.1787/9789264307957-en

Departmental Results Framework document. These set out departmental responsibilities and define results indicators and methods for performance measurement.

It is not clear whether this approach has always worked. A report from the Canadian Library of Parliament indicates that the Auditor General in Canada (the equivalent of the UK's NAO) found in 2018 that at least one department was not collecting sufficient data or setting required performance indicators in such a way as to allow evaluation of whether its programmes were working. The same report also suggests a number of issues with tracking results, including that departments are unlikely to want to report clearly and critically on their own performance, and that some programmes do not in any case lend themselves to easy measurement of performance.[12]

Ireland

Much like in Canada, Estimates documents in Ireland also include performance data. Ireland's Parliamentary Budget Office (PBO) has set out guidance on how to interpret this information, which shows that the Estimates include the key targets that each budget subhead is seeking to accomplish. The Estimates also include "Context and Impact Indicators" which place the performance metrics in context and give some idea of the longer term effects of these programmes.

The PBO also produced a guidance note in 2018 which summarises the use of the Programme Logic Model to scrutinise spending – this, like the Public Value Framework, is a way of examining the inputs, outputs and outcomes of a programme or area of spending to see how those things relate to each other.

Netherlands

The Dutch public finance system is well regarded internationally. According to a document from the Dutch Ministry of Finance, all ministry budgets have to be based on three main questions:

- What do we want to accomplish?
- How are we going to achieve it?
- What are we going to spend on it?

These questions effectively ask the ministry to define its outcomes, outputs and inputs, respectively. In their annual reports, ministries then have to answer three more questions to determine how well they performed:

- Did we achieve our goals?
- Did we do what we said we would?
- Did we spend what we agreed?

[12] Canadian Library of Parliament, Does Reporting on Results Make a Difference?, 15 February 2019

In 2010, about 50% of articles in the national budget contained an indicator that would allow for measuring outcomes, and 80% had one for measuring outputs (it is generally acknowledged that not all areas of spending are suited to having such indicators). An annual Accountability Day allows for Parliamentary scrutiny and debate over how the previous year's budget was implemented.[13]

[13] National Academy for Finance and Economics (Netherlands Ministry of Finance), Public Finance in the Netherlands, 9 December 2013