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Strategic Theme #3B:

# Value for Money & Continuous Improvement

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## Strategic Theme Definition

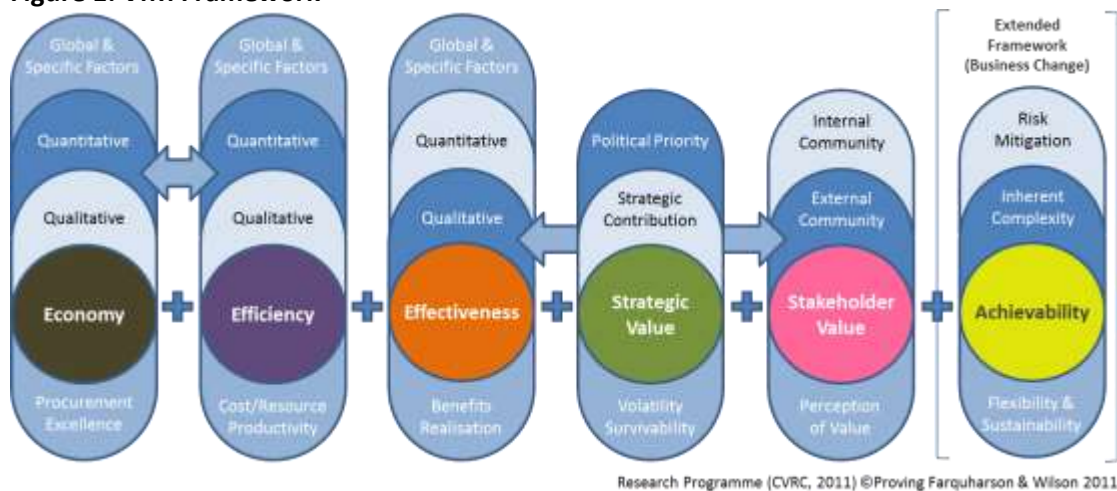
Over recent years local authorities have faced the challenges of unprecedented austerity, with a 49.1%<sup>1</sup> overall reduction in government funding since 2010. Highways authorities are having to fight to ensure the funding is available to maintain their highways asset to an acceptable standard. For many authorities the reality is that they are managing a declining asset, exacerbated by increasingly regular extreme weather events. In this environment, it is critical that the authority can demonstrate it is delivering value for money (VfM) for all its stakeholders, maximising the value derived from resources purchased and deployed and providing confidence that any additional investment will be money well spent in improving the highways asset.

## The Proving Value for Money Framework

The term value for money (VfM) is used extensively within the public sector. In many cases, it simply means the lowest-cost option or price. Proving has developed the VfM framework and supporting software toolkit which explores the delivery of value rather than just cost.

The Proving Value for Money Framework is shown in figure 1.

**Figure 1: VfM Framework**



The Proving VfM framework is based on the NAO definition<sup>2</sup> which uses three criteria to assess the value for money of government spending i.e. the optimal use of resources to achieve the intended outcomes:

### Schedule 1: Intended Outcomes (By VfM Dimension)

1. **Economy:** minimising the cost of resources used or required (inputs) – **spending less;**
2. **Efficiency:** the relationship between the output from goods or services and the resources to produce them – **spending well;** and
3. **Effectiveness:** the relationship between the intended and actual results of public spending (outcomes) – **spending wisely.**

<sup>1</sup> Financial sustainability of local authorities 2018, National Audit Office

<sup>2</sup> Assessing Value for Money, National Audit Office

Proving studied and tested the NAO criteria and have extended the criteria (classified as dimensions) as follows:

### Schedule 2: VfM Dimensions

1. **Economy:** An assessment of the financial inputs, including staff, facilities and equipment, considering whether a 'fair' economic price is being paid for the resources purchased. This includes costs, revenues and cost savings/cost offsets.

*It should be noted that the emphasis is on a 'fair' cost. Where possible, this should be the minimum price for an agreed level of quality. However, as discussed in this paper, the drive to continually reduce costs, irrespective of the impact on efficiency and effectiveness does not necessarily deliver overall service value for money.*

2. **Efficiency:** An assessment of the productivity, utilisation and resilience of the service provided.
3. **Effectiveness:** An assessment of the impact that has been achieved, including cashable financial benefits, social (non-financial) benefits, environmental benefits, political benefits and reputational benefits.
4. **Strategic Value:** The alignment & contribution of benefits and outcomes to the strategic objectives of the authority and service.
5. **Stakeholder Value:** An assessment of the alignment and satisfaction to the expectations and requirements of each stakeholder community; typically including, *inter alia*, members, served communities, officers, commercial partners, other partners and scrutineers.
6. **Achievability:** An assessment of the complexity and achievability of future Options and / or service sustainability.

Proving has developed an Excel toolkit (**Value Analyser 11™**) to support the framework and enable the assessment of value for money for any given service, activity or option.

For each dimension a series of factors are identified, agreed and weighted. Each factor is assessed using four distinct data elements:

### Schedule 3: Scoring VfM Factors

1. **A score:** an assessment of the scale of performance of the option against the respective factor.
2. **A confidence score:** an assessment as to the level of evidence and stakeholder agreement supporting the *score* and (where applicable) *value* provided.
3. **An opportunity score:** an assessment of the extent to which factor performance can be improved.
4. **A value:** the factor cost or cashable benefit (£), over an agreed time period.

### FHRC Research Questions

Using the Proving VfM Framework, the following research questions were presented and agreed by the Future Highways Research Club (FHRC).

**Schedule 4: Research Questions**

1. What are the long-term strategic and operational benefits of VfM-driven, periodic assessments and continuous improvement programmes?
2. What is the optimum level for VfM performance and accountability?
3. What VfM factors and weightings should be used (by service area)?
4. What business changes are required to ensure benefits realisation and tangible improvements in value for money.

**Strategic and Political Rationale**

Given the current economic environment, demonstrating and delivering Value for Money is critical for all public sector organisation and service. FHRC members were asked to identify and prioritise their respective strategic drivers. Table 1 shows the agreed list of FHRC member strategic priorities and default weightings.

**Table 1: FHRC Strategic Drivers: Option Alignment & Contribution<sup>3</sup>**

FHRC Standard Factors	Weighting
Ensure Network Availability	100
Deliver Affordable & Sustainable Services	100
Attract Inward Investment & Economic Stimulation	80
Provide Comprehensive Value for Money Assurance	90
Implement Tangible Service Improvements	100
Services & Asset Plan Aligned with Customer Needs & Political Priorities	80
Deliver Environment Protection Policies	70
Ensure Public Security & Safety	100

As shown, providing ‘Comprehensive Value for Money Assurance’ is strategically important to the sector.

<sup>3</sup> Based on the assessments completed by Suffolk, Lincolnshire, West Sussex, Oxfordshire and Derbyshire.

## VfM Assurance & Continuous Improvement

The process shown in Figure 2 describes the proposed approach to continuous VfM improvement adopted by the majority of FHRC members.

**Figure 2: VfM Improvement Cycle**



### FHRC Highways Service VfM Factor Set

Over the last three years a VfM factor set for local authority highways services has been developed, based on a combination of academic research, industry best practice and learning from practical sector testing and application.

The current standard FHRC Factor Set and Weightings are provided in Appendix A.

The Proving VfM Framework and FHRC Highways Factor have formed the basis from which the stated research questions have been considered, explored and assessed.

### FHRC Baseline Assessment

Since mid-2017, 1 Highways Authorities (refer Appendix B) have completed a service VfM baseline assessment using the standard FHRC Factor Set & Weightings and independently facilitated by Proving. This has provided value data and insight into the challenges faced by the sector.

Figure 3 shows the portfolio of baseline assessments with scores adjusted by confidence.

**Figure 3: FHRC Baseline Portfolio 2017- 2018 (Confidence Adjusted)**

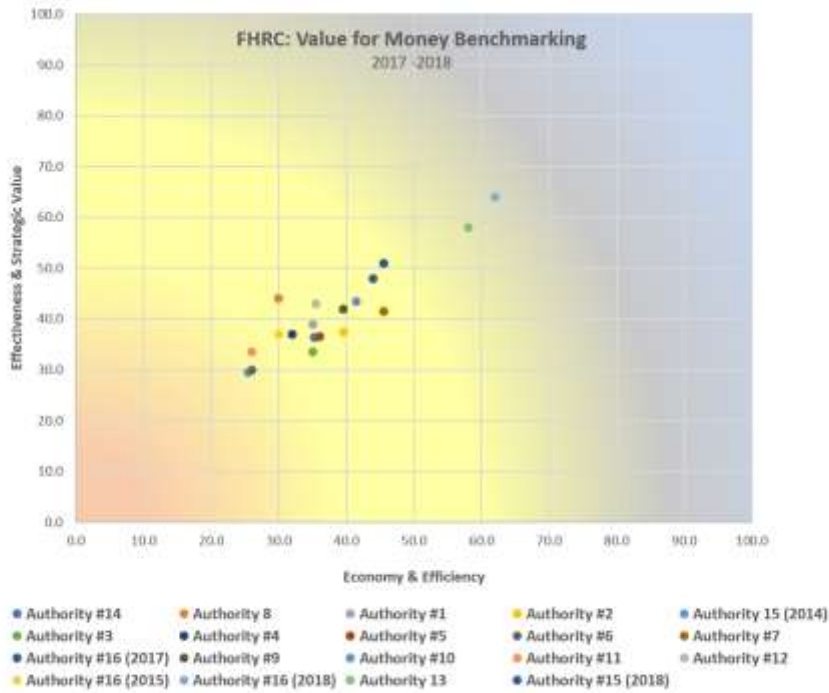
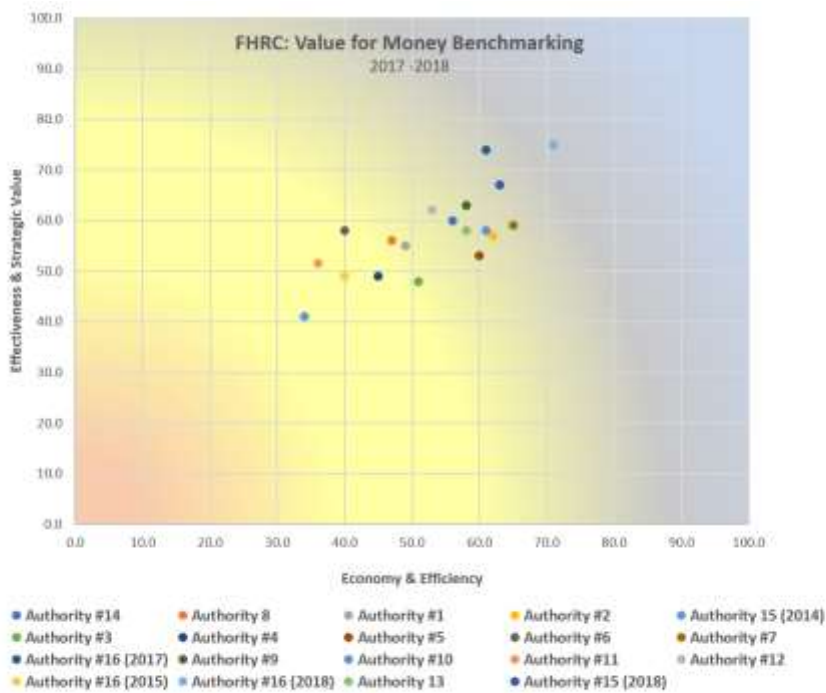


Figure 4 shows the portfolio of baseline assessments with scores adjusted by confidence.

**Figure 4: FHRC Baseline Portfolio 2017- 2018 (Performance Score Only)**



The difference in the two charts reflects the lack of evidence (confidence) to support the overall stated factor performance. For a majority of the factors, a qualitative judgement was made. This is still valid, particularly if a range of stakeholders were involved in the VfM assessment. However, it highlights the need to identify and agree, where possible, quantitative measures that can be independently verified. This will be a focus of the Proving VfM Assurance Framework and Research Theme moving forward.

## Key Themes Identified

A number of key themes were identified that applied to a majority of the highway's authorities assessed:

### Schedule 5: Economy Factors

1. The service is typically provided through very lean teams, paid at or below market rates. This is reflected in the difficulty the service and overall sector, often has in recruiting the necessary skilled resource.
2. A key weakness stated by many authorities is a lack of transparency and detailed understanding and analysis as to the real transactional cost of key services provided by RJ. This impacts the ability to demonstrate overall effective cost management.
3. Many authorities agreed that more could be done to attract grants and investment. It is recognised however, that currently, capital investment in infrastructure may have a longer-term adverse impact on revenue and maintenance budgets.<sup>4</sup>
4. It was agreed by all authorities that the level of additional income generation could be improved. However, within the sector generally there is a lack of available resource, both in terms of capacity and commercial skills, to actively sell existing and new services to any scale.
5. There was general concern as to the lack of transparency and accountability regarding the charges and decisions made by the central departments. This included depots and offices, IT /IS and various framework agreements. The perception is that many of these goods and services could be procured more cheaply and/or the service provided could be of a higher standard.

### Schedule 6: Efficiency Factors

1. All authorities agreed that the transparency, relevance and reliability of performance metrics that measured service and resource productivity could be improved. This includes the monitoring of sub-contractors.
2. The overall 'satisfactory' scores for productivity (both Provider and Client) does not mean there is spare capacity or idleness within the respective service. Resource is typically fully deployed and, in many cases, over-stretched. It was repeatedly stated that the activities undertaken are often not the most productive in terms of importance or impact and that staff are often 'fire-fighting' and responding to the most demanding of customer needs.
3. Linked to the previous point (2), is the need to improve the management of stakeholders, both internally and externally. The wish to be responsive and helpful to be both member and customer requests and demands has a significant impact on efficiency, with excessive time often spent dealing with a single member or customer issue. It was stated by a number of

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<sup>4</sup> Members of the FHRC are currently exploring options to maximise the charge or overhead from capital investment than can be used to support highways revenue and maintenance budgets.



authorities that they often felt it difficult to say ‘no’ or ‘you’ll have to wait’ even when it was the most appropriate response. The problems are further exacerbated by the customer ability to circumvent formal channels of communication.

4. It was stated by all authorities that the quality of IT / IS provision requires significant improvement. This includes out-of-date software, duplication of process and a lack of systems integration. For a lean team to maximise their productivity and quality of output, it is critical that the IT / IS provision supports and improves day-to day working and does not create an additional burden on an already, limited resource. It is a false economy to save money on IT which then results in significant inefficiencies within operations.
5. For most authorities, the level of service/ function sustainability is low. This is due to insufficient skilled resource available to deliver the required service. The ability to recruit individuals with the necessary skills and experience is of concern across the sector.

#### Schedule 7: Effectiveness Factors

1. Most authorities stated that they provide a ‘satisfactory’ quality of service, despite the resource constraints. Some authorities try and offer an agile / demand-responsive service. However, this is difficult if not impossible, with a very lean resource (both financial and people). Increasingly authorities are offering a standard, often minimum, level of service in terms of the scope and scale of services provided.
2. Again, there is often a lack of accurate, reliable and relevant metrics that fully measure quality and service performance.
3. Customer satisfaction was typically judged as ‘requires improvement’ to ‘satisfactory’ with a lower confidence as it is an emotive and changeable factor which is difficult to measure accurately. However, it is politically important to try and capture a reliable measure. It is also important to distinguish between customer expectations of the service and their actual satisfaction in the quality of any work completed.

#### Characteristics of Higher Performing Authorities

Those authorities that have been assessed as having strong VfM performance typically demonstrate the following characteristics:

#### Schedule 8: Characteristics of High-Performing VfM Services

1. **Performance Management:** These authorities have introduced an effective performance management regime. This includes SMART<sup>5</sup> KPI’s on service and function productivity and quality. Staff are encouraged to play an active role in setting, monitoring and managing their respective function performance. Wherever possible, these authorities benchmark their performance externally.
2. **Integrated Services:** These authorities have developed a close and integrated relationship with their principle partners / providers that have improved efficiency and outcomes. Relevant performance measures are extended into the management of these contracts.

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<sup>5</sup> SMART - Specific, Measurable, Achievable, Relevant and Time-bound

3. **Added-Value Activities:** Each authority has identified and are implementing initiatives outside of the core service, aimed at increasing revenue, reducing costs and/or improving authority relationships and reputation.
4. **VfM Confidence Improvement:** These authorities have completed a deep-dive assessment providing documentary evidence and relevant comparisons to industry benchmarks that support their assessed position.

## VfM Priority Improvements

Given the VfM assessments are highlighting similar VfM performance characteristics for the majority of FHRC members, the identified priority improvements also apply to most of the authorities.

There are a number of themes that arise when considering any improvement programme:

### Schedule 9: Key VfM Themes

#### 1. Improved Performance Measurement

Defining, implementing and analysing SMART performance measures will help improve financial management and productivity across the service. To further improve the working relationship between the authority and any delivery partner it is important to improve the transparency and consistency of transactional costs, activities and any associated risks; allowing the client to confidently and fairly challenge provider charges and performance.

#### 2. Customer Satisfaction / Quality of Service

Although it was agreed by most authorities that the overall quality of service provided is considered 'satisfactory', Proving believes that this assessment was rather subjective and could easily be challenged. It would strengthen the case if suitable metrics, including the NHT survey, could be identified and collected in support of these claims. It was agreed that chasing 'customer satisfaction' is politically important but often difficult and volatile and that the management of customer expectations is more achievable. Any communications strategy is therefore critical in ensuring two-way communication between the service and its stakeholders. The key commitments, responsibilities, constraints and challenges of the service need to be adequately communicated whilst understanding in return, customer and stakeholder priorities, concerns and perceived service successes.

#### 3. Partner / Provider Mutuality<sup>6</sup>

Many of the authorities are or beginning to apply the principles of mutuality to their relationship with providers. Authorities can improve all aspects of VfM; reducing cost and improving productivity and the overall quality of the service provided, by fully embedding the concepts of mutuality. This will also help provide evidence to demonstrate the achievements and progress of the partnership to members and other stakeholders. (Refer: **Mutuality Strategic Theme**)

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<sup>6</sup> Mutuality, as a business philosophy, recognises that long-term relationships comprise more than a chain of operational transactions within a contracted framework. Mutuality is true partnering. It is predicated on shared<sup>6</sup> interests, operations and goals, and does not seek to act opportunistically. Mutuality focuses on establishing a relationship based on the exchange of value beyond simple contracting terms.

#### 4. IT/IS Provision

All highways authorities are dependent on the quality of the IT /IS provided by the central IT department. The current IT/IS provision requires significant improvement. It is critically important that a lean service has IT that is 'fit-for-purpose' and does not place an additional burden on already strained resources. The impact of poor IT product, infrastructure and systems must be made clear to senior management.

#### 5. Commercialisation / Traded Services

Within the overall Strategic Programme, a separate research theme (Option E: **Commercialisation & Revenue Generation**) is proposed to explore the opportunities to generate additional revenues that can be re-invested in the service. Traded services of scale typically require investment, commercial skills and possibly a distinct delivery model. Given the resource and financial constraints of most authorities, the delivery partner may be able to provide the additional expertise and support in developing and realising any commercial opportunities.

#### 6. Grants & Investments

It was generally agreed that more could be done to successfully win grants and attract investment. Again, the main constraint is the lack of resource with the required skills and time to invest in often complex and short-turn-around bids. One proposed solution was to use delivery and other professional partners to assist in writing the bids with guarantees that they would subsequently benefit if the bid was successful.

## Research Questions: Conclusions To-Date

What are the long-term strategic and operational benefits of VfM-driven, periodic assessments and continuous improvement programmes?

### Schedule 10: Identified Benefits

#### 1. Identification and Realisation of Cashable Benefits

##### a. Operational Savings

Most authorities are operating with very lean management and operational teams. Similarly, most delivery partners are providing the service at low margins (or even at a loss). The opportunity to identify and realise further cashable savings is limited. The focus is therefore on incremental efficiency and effectiveness improvements, given current resource levels.

##### b. Protect Current Funding Levels

A clear benefit that has arisen from the VfM Assessments and a programme of continuous improvement has been that some highways services have been able to protect, or even increase, their budgets by demonstrating they are good custodians of public funds, delivering value and a quality service. This can be extended to external funding from central government initiatives.

##### c. Revenue Generation

The opportunity for significant cashable benefits lies through commercialisation and other income generating activities. This is being explored in detail through the **Commercialisation Strategic Theme**.

2. **Improved Provider / Partner Relationship (Refer: Mutuality Strategic Theme)**
3. **Operational Metrics – Productivity / Performance / Quality**
  - a. **Where possible, identify quantitative metrics required to support qualitative judgements.**
4. **Improved Strategic Focus**
  - a. Agile vs. lean.  
Clarity as to the trade off between the two approaches and that it is not possible to achieve both.
  - b. Management of a Declining Asset
5. **Management of Stakeholder Expectations (Refer: Communications Strategic Theme)**
6. **Identify Industry Challenges**
  - a. Scarcity of Skilled Resource
  - b. Succession Planning

**Schedule 11: Benefits of Frequent Re-Assessments**

1. Ensure agreed improvements are implemented
2. Embed service ethos of always looking for ways to improve.
3. Establishes a regular forum for structured review and debate.
4. Involves stakeholders, thereby increasing understanding of the challenges and encouraging ownership and participation in finding solutions.
5. Identify, consider and resolve emerging issues and constraints.

**Schedule 12: What is the optimum level for VfM performance and accountability?**

1. There is clearly a 'trade off' between *Effective vs Economic & Efficient* and *Agile/ Demand Responsive vs. Lean*.
2. Budgetary constraints mean that Revenue Generation (and profit) is the only realistic way of improving the quality, scope and scale of service provided.
3. Ensure / manage realistic stakeholder expectations to recognise what is possible given financial and resource constraints.

**Schedule 13: What VfM factors and weightings should be used (by service area)?**

1. FHRC Standard Factor Set & Weightings proven to apply to all Highways Authorities. Similar characteristics, challenges and priorities apply.
2. Standard factor set applies to most highways' functions. However, factor can be updated / flexed to reflect individual function characteristics.

**Schedule 14: What business changes are required to ensure benefits realisation and tangible improvements in value for money?**

1. Embed regular performance metrics and management across the service.
2. Empower and encourage key staff to identify, capture, report and if required, address the relevant VfM metrics that apply to them.
3. Potential benefits identified should be SMART, wherever possible.
4. Introduce regular VfM assessment and benefit monitoring.
5. Ensure there is clear ownership and accountability for agreed performance improvements and benefits realisation.

## Appendix A: FHRC Standard Factor Set

100	Economy	<b>Commissioned / Outsourced Service Contract</b>	100
101	Economy	Management / Professional Staff	100
102	Economy	Front Line Staff	100
103	Economy	Sub-Contractors	100
104	Economy	Professional Services including IT/IS	60
105	Economy	Other Costs (Where Applicable)	60
106	Economy	<b>Transactional / Internally-Contracted Costs (Where Applicable)</b>	
107	Economy	Annual Retainers (Cost Justification & Cost Stability)	80
108	Economy	Transactional Costs (Cost Analysis, Justification & Cost Stability)	80
109	Economy	<b>Internal Costs</b>	
110	Economy	Management	100
111	Economy	Staff	100
112	Economy	Contract Cost Management	60
113	Economy	Professional / Consultancy Services	60
114	Economy	IT / IS Services, Equipment & Software	60
115	Economy	Materials & Consumables	60
116	Economy	Vehicles / Equipment	60
117	Economy	Depots / Offices	40
118	Economy	Other Operating Costs	40
119	Economy	<b>Cost of Risk (Where Applicable)</b>	
120	Economy	Cost of Compensation (Including CEs / Functional FTP Events)	80
121	Economy	Cost of Risk (Anticipated)	80
122	Economy	Cost of Risk (Emergent)	80
123	Economy	<b>Revenue Generation (Where Applicable)</b>	
124	Economy	Income / Services Trading	80
125	Economy	Grant / Investment Winning	80
126	Economy	Economy Improvement Plan (Savings Plan)	60
200	Efficiency	<b>External Resource Efficiency (Commissioned / Outsourced Service Contract)</b>	
201	Efficiency	Productivity of Management	100
202	Efficiency	Productivity of Staff	100
203	Efficiency	Other Resource (Productivity)	60
204	Efficiency	<b>Internal Resource Efficiency</b>	
205	Efficiency	Productivity of Management	100
206	Efficiency	Productivity of Staff	100
207	Efficiency	Other Resource (Productivity)	60
208	Efficiency	<b>Efficiency Performance Management</b>	
209	Efficiency	Service / Function Productivity & Throughput	100
210	Efficiency	Service Utilisation	80
211	Efficiency	Service Optimisation	80
212	Efficiency	Service Sustainability	80
213	Efficiency	Stakeholder Management (Internal & External)	100
214	Efficiency	Service Agility (Scope & Scale of Operations: Demand Matching)	80
215	Efficiency	Efficiency Resilience (Service Performance Under Stress)	80
216	Efficiency	IT / IS Management	60
217	Efficiency	Information Analysis & Reporting Management	80
218	Efficiency	Travel & Accommodation	40
219	Efficiency	Efficiency Improvement Plan	60

300	Effectiveness	<b>Effectiveness Management</b>	
301	Effectiveness	Quality of Service	100
302	Effectiveness	Scope of Services	100
303	Effectiveness	Scale of Services	100
304	Effectiveness	Agility of Services	100
305	Effectiveness	Resilience of Services	100
306	Effectiveness	Serious Events (Public Protection / Safety / Regulatory Compliance)	60
307	Effectiveness	<b>Transactional Performance (Where Applicable)</b>	
308	Effectiveness	% of On-Budget Transactions	100
309	Effectiveness	% of Error-Free Transactions	100
310	Effectiveness	% of On-Time Transactions	100
311	Effectiveness	% of Reworked / Discarded Outputs	60
312	Effectiveness	Overall Customer Satisfaction	100
313	Effectiveness	<b>Value Added Business Benefits</b>	
314	Effectiveness	Financial Benefits (Cashable Benefits)	60
315	Effectiveness	Social Benefits	60
316	Effectiveness	Reputation Benefits / Dis-Benefits	60
317	Effectiveness	Environmental Benefits	60
318	Effectiveness	Services Development / Innovation	60
319	Effectiveness	Effectiveness Improvement Plan	60

400	Strategic Value	Ensure Network Availability	100
401	Strategic Value	Deliver Affordable & Sustainable Services	100
402	Strategic Value	Attract Inward Investment & Economic Stimulation	50
403	Strategic Value	Provide Comprehensive Value for Money Assurance	90
404	Strategic Value	Implement Tangible Service Improvements	100
405	Strategic Value	Services & Asset Plan Aligned With Customer Needs & Political Priorities	70
406	Strategic Value	Deliver Environment Protection Policies	70
407	Strategic Value	Ensure Public Security & Safety	100

500	Stakeholder Value	Politicians (Leader)	90
501	Stakeholder Value	Portfolio Holder	100
502	Stakeholder Value	Politicians (Cabinet & Scrutiny)	90
503	Stakeholder Value	Politicians (Other)	80
504	Stakeholder Value	<b>Other Councils</b>	
505	Stakeholder Value	Districts	70
506	Stakeholder Value	Parishes and Town Councils	60
507	Stakeholder Value	Neighbouring Authorities	10
508	Stakeholder Value	<b>Officers</b>	
509	Stakeholder Value	CEO & Corporate Team Management	100
510	Stakeholder Value	In-Function	100
511	Stakeholder Value	In Other Dependent Functions	80
512	Stakeholder Value	Partners (Delivery / Value Chain)	80
513	Stakeholder Value	Utilities Organisations	30
514	Stakeholder Value	Developers	80
515	Stakeholder Value	DeFRA	60
516	Stakeholder Value	Highways England	60
517	Stakeholder Value	Other Transport-related Organisations / Agencies	60
518	Stakeholder Value	LEP	80
519	Stakeholder Value	General Public	100
520	Stakeholder Value	Regulators	80
521	Stakeholder Value	Special Interest Groups	80