

Value for money and the use of evidence

Jonathan Price

Chief Economist, Welsh Government

Purpose:

- **Set out key principles that, if followed, can help in use of evidence to deliver good VFM (in widest sense)**
- **Suggest some practical steps that can be taken in applying the principles both in reviewing existing policies and introducing new ones**

The principles are clear and (generally) understood, the guidance is good, and responsibilities are explicit:

- FM statements on the use of evidence
- Accounting officer duty to deliver VFM
- For example on guidance, see “Green Book”:

http://www.hm-treasury.gov.uk/data_greenbook_index.htm

The Green Book is HM Treasury guidance for Central Government, setting out a framework for the appraisal and evaluation of all policies, programmes and projects. It sets out the key stages in the development of a proposal from the articulation of the rationale for intervention and the setting of objectives, through to options appraisal and, eventually, implementation and evaluation. It describes how the economic, financial, social and environmental assessments of a proposal should be combined and aims to ensure consistency and transparency in the appraisal process throughout government.

So why does it not always happen in practice?

Evidence is often murky

Anecdote can drive out better evidence

Pre-commitments to sub-optimal policy

Lobbying

Concern with means not ends

Failure to confront difficult choices and trade-offs

Potential losers dominate potential winners

Difficult to learn in public (media pressure)

Absence of robust external challenge (both within WG and beyond)

Need to be different

- **Principle:** Everything we do has an “opportunity cost” – in other words, resources that are used up could be employed to deliver other benefits (even if the resources are non-financial, such as the use of an asset)....

.....so simply demonstrating a benefit is not enough

- **Making it real:** give realistic examples of the forgone alternatives

- **Principle:** Effective action needs a sound rationale. Are there good reasons to think that government action is likely to be cost-effective in this area?
- **Making it real:** Spell out the rationale. (As before, simply identifying a benefit is not enough.) Find examples of similar actions from elsewhere and evaluate.

- **Principle:** Be clear whether the rationale for intervention is social or economic (or both). Economic interventions need to be justified by reference to “market failure”. This is NOT a simple failure to deliver a desired outcome, but a specific failure of the market system to extract the maximum value from the available resources.
- **Making it real:** Use the correct definition of market failure – reference the Green Book. If the rationale is social, quantify the benefits (as far as possible).

- **Principle:** Take account of government failure. Do not assume that government action will be implemented perfectly (or without cost).....
-*may lead to particular concern about small schemes*
- **Making it real:** Find examples of similar actions and evaluate. Make realistic estimates of admin costs (including evaluation and review). For actions to address market failures, explain why the government might be expected to improve on the market.

- **Principle:** Consider incremental costs and benefits. Are the bulk of the benefits delivered by the initial allocation of resources, with progressively fewer benefits being delivered as more resources are allocated? If so, consider cutting back.
- **Making it real:** Set out the implications of change with examples from a continuum.

- **Principle:** Consider a wide range of options, including “do something”, “do minimum” and “do nothing” (see also principle 3).
- **Making it real:** Cite the guidance.....

- **Principle :** Take full account of quality of the evidence on (likely) cost-effectiveness. In general, anecdote and opinion, even when from experts, should be valued less than the results of multiple, rigorous studies.....
- **Making it real:** Involve (impartial) experts and publish the evidence base. Ensure conflicts of interest are disclosed.

- **Principle:** Take proper account of offsetting effects.
- **Making it real:** “Deadweight” and “displacement” should always be considered explicitly.

- **Principle:** Assess effectiveness in terms of outcomes or outputs, not inputs.
- **Making it real:** If it is not possible to assess outcomes or outputs reliably, consider whether to cut spending.....
.....if we can't tell whether we are having an effect on outcomes, how can we justify spending (in terms of opportunity costs)

- **Principle:** Cost-minimisation should be incentivised.
- **Making it real:** Consider appropriate mechanisms on a case-by-case basis....e.g. own funds at risk where over-spends

- **Principle:** A degree of contestability should exist such that poor delivery agents can be replaced.
- **Making it real:** Consider contestability *within the non-profit sector*

- **Principle:** Ensure that there are periodic reviews and “break points”, such that the use of resources or regulations is challenged appropriately.
- **Making it real:** Consider time-limited funding or regulations.

Finally.....

- Fertilise the ground.....
- Try to get in early
- Exploit opportunities
- Present appropriately – it is all about maximising the delivery of the government's objectives