A holistic way to deliver value for money
April 2022

For Government interventions to work well, they need to be implemented successfully at multiple levels. To get the most from limited resources, it is necessary to demonstrate both efficiency and effectiveness while delivering the intended outcomes. This is known as achieving value for money.

Recently, we collected insights from central government departments, transport agencies, regional and local government as well as transport practitioners to help us consolidate different definitions, approaches and frameworks into a Value for Money Assessment Model.

At a minimum, achieving value for money requires making sure investments target what society needs, what it values and what it can afford. It must take the entire intervention life cycle into consideration.

Unfortunately, the current level of maturity in assessing, delivering and evaluating interventions against the transport outcomes sought across the sector is mixed.

The lack of a common working definition of "value for money" has resulted in inconsistencies in how value for money is understood and assessed. This makes it difficult for central agencies to take a systematic and consistent approach to monitoring and evaluating the delivery and achievement of outcomes.

The need to supplement cost benefit analysis

While traditional cost benefit analysis is still one of the key tools to inform evidence-based decision-making, it has a number of limitations that call for additional tools and approach.

The value for money approach can supplement a cost benefit analysis to:

- treat deep uncertainty on both costs and effects
- handle and account for multi-sector interactions and issues (including just transition)
- better understand how inter-related projects, issues or programme should be assessed
- better account for risks and opportunities, including irreversible impacts.

Best practice value for money principles

We want to ensure our transport system delivers the desired social, economic and environmental outcomes. To assess and evaluate value for money from interventions, the transport sector needs to take a consistent and comprehensive approach.

Our Value for Money Assessment Model is underpinned by three fundamental best practice principles:

- Being clear we seek to achieve from outcomes in an effective and efficient manner
- Using common language when defining benefits, outcomes, value for money and related terminologies, and
- Being clear and consistent about how to track and evaluate outcomes delivery throughout the life-cycle.

The key is to embed the thinking throughout the intervention life-cycle process

Interventions affect health, social, economic and environmental outcomes and the values they create for individuals, businesses and the economy.

To realise these values, we must apply a consistent approach throughout the entire intervention life-cycle. This covers various stages of a project or programme, including development, procurement, operation, monitoring and evaluation. Achieving value for money goes beyond conducting a cost benefit analysis.

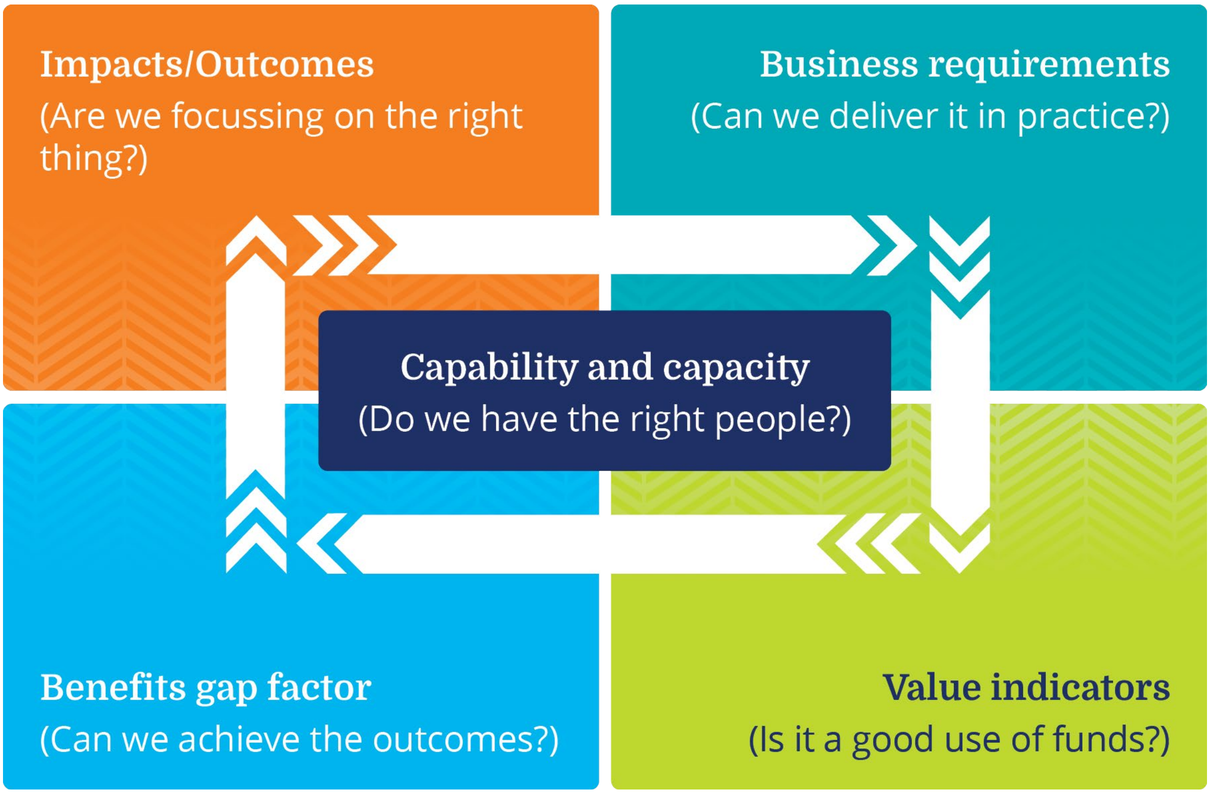

Figure 1: Proposed Value for Money Assessment Model

The proposed Value for Money Assessment Model has five inter-linked assessment elements that seek answers for five crucial questions.

- **Are we focusing on the right things?** This involves assessing how the *expected impacts and outcomes* from intervention align with the national strategic objectives. These objectives are set out in policy frameworks such as the Living Standards Framework, the Transport Outcomes Framework and other relevant government strategies.

- **Can we deliver this?** This involves assessing the *business requirements* and ensuring the delivery organisation has the systems and processes in place to efficiently deliver on the intended impacts and outcomes. This requires applying appropriate processes across all aspects of development, delivery, operations and maintenance stages.

- **Is this a good use of funds?** This involves conducting a cost benefit analysis to indicate how efficiently each action delivers desired outcomes and impacts. The use of traditional cost benefit analysis metrics such as net present values and benefit to cost ratios allows for easy comparison of efficiency between intervention options. However, it is necessary to capture non-monetised impacts as many impacts that deliver values are difficult to quantify or monetise. Monetised and non-monetised *value indicators* can be sourced from New Zealand Treasury, and Waka Kotahi NZ Transport Agency for assessing land transport investments and interventions.

- **Have we accounted for biases?** This involves assessing the extent to which an intervention realises the outcomes and benefits intended. Where appropriate, the assessment should include the whole of life costs of an intervention. A common factor that results in *benefit gaps* is optimism bias, such as those related to budget and timeframe of delivery. Ongoing monitoring and management of the delivery of benefits is vital to ensure benefit realisation.

- **Do we have the right people in the room?** This requires checking there are the right amount of resource and skills delegated to deliver the outputs. This is at the heart of the model as having the right *capacity and capability* is relevant in all elements of the model.

What is next?
To help the sector develop its maturity in delivering value for money, Te Manatū Waka Ministry of Transport will further engage the transport sector to develop guidance to outline the mechanisms for applying the Value for Money Assessment Model. If you have further comments or suggestions on the outlined Value for Money Assessment Model, please email evaluation@transport.govt.nz.

Reference

Value for Money Framework review <<Insert link>> (*Note: This purpose of this review was two-folded: 1) to review the value for money approach in GPS 2015 and 2018, and 2) to develop a value for money assessment model that could be applied across different investments.)*