Value for Money (VfM) analysis

KPMG Economics
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At a time of constrained budgets and competing priorities for funding, understanding the value generated by policies and investments is critical to enabling robust decision making and maximising value.

Value for money can mean different things to different stakeholder groups. In simple terms, it is about whether something is worth what has been spent on it.

The concept of VfM incorporates 4 components, which can be assessed individually or collectively:

- ✓ Economy – i.e. cost minimisation
- ✓ Efficiency – i.e. maximising output based on a given set of resource inputs
- ✓ Effectiveness – i.e. successful delivery of intended outcomes from outputs produced
- ✓ Equity – i.e. whether outcomes reached intended beneficiaries

At the organisational or societal level, analysis of value for money (VfM) can be used as an absolute measure to determine whether the value generated from a policy or investment is greater than its cost. It can also be a comparative measure to assess the relative merits of different options. VfM analysis can be used both pre-implementation, as a decision making tool, and post-implementation, as an evaluation tool.

A key challenge in assessing VfM is that 'value' is inherently subjective – the value of an asset, good or service varies according to the context and the perspective of its beneficiaries.

When considering goods and services which are bought and sold, their market price tends to be a good approximation of their value to users. However, in the public sector and increasingly among private sector organisations seeking to make a wider contribution to society, goods and services provided often have no established market price or the market price does not capture the full costs and benefits to society due to positive or negative externalities. In these instances assigning a value becomes more challenging.

At KPMG we are experienced in applying established VFM approaches alongside the latest insights and innovative valuation techniques, in order to robustly assess value for money in a way that captures a range of tangible and intangible outcomes.

All our analysis is grounded in HM Treasury Green Book and National Audit Office principles such that it can stand up to scrutiny and the standards of Government.

Our services include:

- **Cost-effectiveness analysis:** This provides a method of comparing the VfM of two or more policy options on the basis of a common intended outcome. It provides a simplified, but relatively narrow, approach to assessing value for money.
- **Cost-utility analysis:** Similar to cost-effectiveness analysis, cost-utility analysis allows for the VfM of two or more options to be compared. Rather than focus on a single outcome for comparison, it derives a unit of utility that costs can be compared across. A common use of cost-utility analysis is the measure of cost per Quality Adjusted Life Year (QALY) in healthcare.
- **Cost-benefit analysis (CBA):** This compares the total costs of a policy/ programme with the total benefits, resulting in a benefit-cost ratio and/or net present social value (NPSV). A comprehensive CBA should monetise the full breadth of costs and benefits to society (where possible and proportionate to do so), alongside qualitative assessment of the nature and scale of significant non-monetised costs and benefits.
- **Social return on investment (SROI)**: Similar to CBA, SROI analysis seeks to put a monetary value on the societal outcomes of a project or investment. This approach is commonly used by both public and private sector organisations to understand and demonstrate the value delivered.

A key challenge when undertaking VFM analysis is assessing the value of goods and services without a clear market value. We are experienced in applying a range of techniques to overcome this and have successfully assessed VFM for a breadth of types of policies, programmes and investments.

Stated preference

‘Stated preference’ methods are effective, bespoke survey-based techniques that enable us to estimate the value of non-market goods or services (e.g. an organisation’s contribution to society). They can be used to estimate the value to those who benefit directly (use value) as well as to those who may gain benefit from knowing they exist for others to use now or in the future (non-use value). We have experience applying the two main types of stated preference methods - Contingent Valuation and Choice Modelling:

- **Contingent valuation**: This method asks respondents how much they would be willing to pay for a good or service. It is most appropriate when the good/ service has a relatively simple set of attributes that can be described and valued and when the objective of the analysis is to understand its overall value.
- **Choice modelling:** This more complex approach presents a series of hypothetical scenarios, each containing different combinations of attributes, with respondents asked to state their preferred option from each set. There results are analysed to estimate the value of different attributes, which provides additional insight in cases when understanding relative preferences between attributes is important.

Due to the hypothetical nature of stated preference techniques, we take considerable care in their design and implementation to avoid bias in responses and to achieve accurate results. We follow latest Government guidance on the application of these techniques to deliver robust analysis.

Revealed preference

‘Revealed preference’ techniques use data on observed consumer behaviour to estimate the value of goods and services. This can include:

- **Hedonic pricing:** This method analyses variation in market prices based on different attributes in order to value individual attributes (e.g. analysis of variation in house prices according to proximity to green space allows estimation of the value placed on green space).
- **Travel cost method:** This method can be used specifically to value leisure, culture, heritage and natural environment attractions by analysing the time and costs people incur to visit them – using this as a proxy for the value people place on accessing them.

Benefits/ value transfer

The ‘benefits transfer’ method, also known as value transfer, draws on existing research and valuation estimates and transfers these from one context to another. We use this method when direct valuation methods such as stated preference and revealed preference are not possible, for example, due to constraints on time, budget or data availability. To apply this approach robustly we take care to consider the context for the analysis such that we can adjust assumptions to optimise the relevance and applicability of existing valuations to new contexts as needed.

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