

Improving Spending Decisions

by the staff of the (Resource) Strategy and Development Unit

1. Introduction

In January, the Centre for Social Justice published a report titled 'Outcome-Based Government: How to improve spending decisions across Government'. The report examines how the government can measure more effectively the improved social outcomes which it seeks to achieve.

Much of the report is of interest to the Church and, indeed, any organisation which seeks to ensure that its resources are allocated and used effectively.

This note sets out, very briefly, the report's main recommendations. Readers are invited to reflect upon them in the context of the ways in which spending decisions are made at the various levels within the Church.

2. Overview of outcomes-based approach

The report cites a new approach to public spending, which is starting to take root in government bodies and non-government organisations in the UK and abroad, called 'evidence-based policy making'. Closely related to this approach is the Social Return on Investment (SROI) which is becoming more commonly used in the UK voluntary sector. The common aim of these approaches is to maximise the value of the social and economic outcomes produced by a given level of expenditure.

The report argues that government needs a systematic and consistent method of valuing outcomes, in order to prioritise between them and guide consistent decision-making across departments. However, the current tendency in government is to confuse outcomes with outputs. For example, politicians tend to focus on increases in government departments' resources and activity (i.e. outputs) – more policeman, more hospitals, more teachers - rather than on the improvements in social outcomes which these resources are supposed to produce. The government has operational control over outputs: it can change its activities in order to influence waiting times in hospitals, the number of police on the streets and the number of job seekers in employment programmes. But the government can only influence outcomes such as public health, public safety or the employment rates. Nevertheless, such outcomes are the ultimate objectives of policy and so, as far as possible, they should be differentiated from operational outputs.

The report defines inputs, outputs and outcomes thus:

Inputs are the amount of resources required to generate an output, and measured in terms of their cost, i.e. hours worked, space rented, materials used.

Operational outputs are the item or activity generated by an input. Outputs are usually finite in number, easily measurable and can be directly influenced by government policy, i.e. flu vaccinations, training places, nurses.

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Social outcomes are the change in society resulting from an output. Outcomes cannot be directly influenced and are usually harder to measure. However, a change in society can be measured by using appropriate indicators, i.e. the outcome 'improved health' can be measured by the indicator life expectancy.

The report argues that government objectives need to be cast in the form of outcomes: that is, in terms of the changes that we want to see in society. It holds that, without clear objectives, it becomes impossible to align an institution behind a shared goal, or to hold it to account for its performance in achieving it. Policy makers, by being vague about the outcomes they want to achieve, have a tendency to shift the goal- posts and declare policy success based on the outcomes that were achieved rather than the outcomes that were intended. This fails to improve the quality of decision-making, reduces trust and politicises decision-making. Without a very clear view of what outcomes are being aimed for, and how much we value them, there can be no consistent way of deciding how to apportion the available funds.

3. Recommendations

So, how can the move to an outcomes-based approach be achieved? The report makes the following key recommendations:

i) *Clarify Objectives*

First, objectives must be clarified. It is necessary to:

- Articulate a clear set of outcomes that defines what the priorities are (since the list of goals is potentially endless, a consistent mechanism for prioritising outcomes is essential).
- Organise the outcomes in a clear hierarchy, so that operational plans can flow from them. Operational plans should be evaluated against how effectively they deliver outcomes.
- Establish a set of indicators to measure and quantify changes in the outcomes.
- Agree outcomes and indicators which are comprehensive, relevant and manageable.
- Value outcomes in terms of their fiscal, economic and, where possible, their social impact (including by recognising the impact which effective work in one area of policy has on other areas of policy).

ii) *Measure Productivity*

Productivity should be measured systematically. This is necessary in order to understand how to deliver the outcomes as cost-effectively as possible. Resources should be allocated where they will deliver the most value and spending decisions made based on the productivity of that expenditure. This can be achieved by:

- Standardising cost accounting and reporting, with a focus on the unit cost of an activity.
- Systematically measuring outputs and using empirical evidence to link outputs to outcomes.

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- Departments working together to achieve outcomes, taking a broad view of productivity, sharing information effectively and valuing outcomes consistently.
- All funding requests being made on the basis of a clear 'productivity assessment', linking activity cost to outputs, outputs to outcomes and outcomes to their overall value. The productivity case should be used to set targets based on the value of the outcomes delivered. The targets should be evaluated based on the strength of evidence in achieving outcomes, their values and the timescales against which they will be achieved.

iii) Rigorous Decision-Making

Decision-making must be rigorous, with a move away from a culture that focuses on the size of a departmental budget and which has limited consequences for failure and towards a culture that focuses on effectiveness.

Good governance must include:

- Issuing effective central guidance to enable a consistent, analytical evidence-led approach to spending to be rigorously followed as part of the decision-making process (rather than after the fact).
- Rewarding good policy and spending decisions, and holding officers to account when their decisions fail to improve outcomes.
- Incentivising a focus on cost-effectiveness and tightly linking financial and performance rewards to success and failure in delivering departmental business plans.
- Putting in place a common framework for assessing policy (and its implementation) to enable providers to compete on the basis of ability: that is, whoever can deliver outcomes cost-effectively.

iv) Delivery and Evaluation

Delivery and evaluation must be improved by:

- Improving delivery capability and accountability to focus on outcomes. Clearly defined, measurable and valued outcomes are required, with indicators that are linked to top level outcomes and reliably and regularly measured. This should encourage departments to achieve Government outcomes rather than departmental outputs. Departments should be encouraged to work together to achieve outcomes, and split funding based on their relative contributions.
- Improving the quality of management. Departments must be guided by the business case when implementing programmes and the business case should set its own targets and timelines for achieving outcomes, as well as define how key indicators and metrics will be monitored. Delivery organisations have to be aware of and contribute to the evidence, and execute programmes with fidelity. Changes to implementation need to be justified in the context of both improving outcomes and supporting programme evaluation. Private and voluntary sector providers should deliver to a minimum standard and be evaluated against the cost-effective delivery of outcomes.
- Improving internal monitoring and evaluation. The implementation of programmes needs to be monitored against the business plan that originally led to funding approval. Evaluations of existing outcomes need to be peer reviewed, and used to

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build up a body of knowledge so as to improve the effectiveness of policy and its implementation.

- The report notes that, in the absence of effective evaluation, unproductive spending will continue to be justified on weak grounds and opportunities to improve both policy and service delivery will be missed.

v) *Strengthen Institutions*

Institutions – and their culture and their capabilities – need to be strengthened. The necessary skills are required to carry out robust analysis but cultures have to become more open to scrutiny, both internally and externally. The leadership should be guided by the evidence and align all levels of government to work together to achieve desired outcomes. In particular, it is necessary:

- To build analytical and financial capabilities within departments. The ability to allocate funds and to spend effectively is dependent on financial and analytical skills, since it relies upon understanding cost-effectiveness. The lack of market signals makes the need for robust financial and analytical skills even greater in the public sector than in the commercial world.
- Improving and expanding finance capabilities can produce significant efficiencies. For example, when DEFRA began to treat the analysis of its core spending decisions in the same way as programme spending (which is closely monitored), it was able to make significant savings and generate a budget surplus for use as a contingency fund.
- Develop a more open and challenging culture, focused on achieving cost-effective outcomes. Policy ideas should be encouraged at all levels and externally, submitted with supporting analysis. Competing policy ideas should be evaluated on a consistent basis. And a proportion of Government expenditure should be set aside for an Innovation Budget, to fund and nurture exceptional initiatives that lack the evidence to demonstrate effectiveness, but which nonetheless show promise.
- Set up an independent body to scrutinise and strengthen decision-making.

4. Conclusion

This paper sets out very briefly the key findings and recommendations of the Centre for Social Justice's paper on Outcome-Based Government. The executive summary can be found at:

http://www.centreforsocialjustice.org.uk/client/downloads/20110124_ESSRO1.pdf

and the full paper at:

http://www.centreforsocialjustice.org.uk/client/downloads/CSJOutcomeBasedGovernment_final2_WEB.pdf