

Spending efficiency

The case for a balanced scorecard approach

Association for Consultancy and Engineering

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This paper explores the case for a “balanced scorecard” approach to assessing the merits of public sector spending.

Summary

ACE recognises that economies in public spending will be necessary to achieve the deficit reduction necessary.

However, it is important that where spending cuts are made, these are done in as systematic and ideologically neutral a manner as possible. There is no benefit to the country from decisions on spending that is purely politically motivated.

Therefore, ACE recommends that the government establishes a clear and transparent set of criteria for assessing items of public spending. This should aim to eliminate wasteful activities that add little or no value to the public, while ensuring that investment that does generate significant returns is maintained.

ACE suggests that these criteria should be applied using a form of “balanced scorecard” methodology, which the government and its agencies can use to assign priorities to budget items. This is preferable to “salami slicing”, which raises the risk of damaging beneficial investment.

ACE suggests that the indicators chosen balance the immediate costs of the investment with the potential long term returns and the risks of cutting the investment. It is important that investments that could unlock significant economic benefits are preserved as far as possible.

ACE suggests that, in the rationalisation of public services, the needs of users, stakeholders and communities should be a paramount concern. Balancing the diverse needs of a wide range of communities and users is a significant challenge, but must be tackled.

This methodology would require a comprehensive spending review and may take longer than a straightforward programme of budget cuts, but would leave the UK better placed to respond in the future.

The concept of a balanced scorecard approach is not new to the public sector; ACE’s view is that established good practice in determining value for money should be applied at all levels wherever possible.

Towards an understanding of value

Assuming that the overall approach to reducing public sector costs will be a blend of efficiencies in existing programmes and cutting programmes entirely, the practical issue will be how to select efficiencies that help to address the deficit without causing long term damage to the UK’s competitiveness.



This means that a narrow approach to value for money, focused on headline savings and the immediate bottom line, is unlikely to be appropriate. As research by Demos¹ makes clear, simply carrying out “salami slicing” of budgets is likely to yield only short term savings without implementing systematic efficiencies.

There is also the risk that short term budget reductions could damage longer term prospects for the UK’s economy, particularly if savings are made in fields such as research and development or support for small businesses.

Successful efficiency gains, therefore, require an approach based on long term value for money and an assessment of the wider implications of budget cuts. Cuts to public sector capital budgets, for example, have an impact on the private sector as much capital spending is placed with private companies.

Gershon, efficiencies and evidence of value

In the UK, the cross-cutting review led by Sir Peter Gershon² in 2004-5 is the key piece of research into public sector efficiency. It identified around £21.5 billion of potential efficiency savings, and set the standard for assessing efficiency of public sector spending.

This was followed in 2006 by Sir David Varney’s review³ of the potential for public sector service transformation, which identified further cost savings through new ways of working.

Other studies have also been conducted, highlighting the value added by investment in sectors of the economy. The UK Contractors’ Group’s 2009 report⁴ compared the relative returns of potential avenues of government investment. A study by OECD⁵ of the link between infrastructure investment and economic growth also compared the relative benefits of different types of infrastructure investment across a selection of OECD countries.

Considering these and similar studies, there is a sizeable volume of evidence that the public sector can draw upon when assessing value for money.

A lesson from Canada

There are precedents for a balanced scorecard approach to the reform of public finances. In 1993 the Canadian federal government conducted a review of the entirety of public spending. Each programme was subject to five key questions:

- Is it core to Canadian society?
- If so, does government need to do it?
- Can local government do it?
- How can we do it better?

¹ *Getting more for less: efficiency in the public sector*. Available from www.demos.co.uk

² http://www.hm-treasury.gov.uk/d/efficiency_review120704.pdf

³ http://www.hm-treasury.gov.uk/d/pbr06_varney_review.pdf

⁴ <http://www.ukcg.org.uk/fileadmin/documents/UKCG/pamphlets/UKCGfina.pdf>

⁵ [http://www.oilis.oecd.org/olis/2009doc.nsf/LinkTo/NT00000E6A/\\$FILE/JT03261849.PDF](http://www.oilis.oecd.org/olis/2009doc.nsf/LinkTo/NT00000E6A/$FILE/JT03261849.PDF)



- Can we afford it?

The outcome was a re-balancing of public sector spending, an overall spending cut, a reduction in public sector employment and a reversal of Canada's GDP deficit in three years. According to Demos⁶, this was achieved without tax rises or strikes.

The five questions above, however, beg more detailed questions about what criteria are used at each stage. Clearly, these will differ from programme to programme, as the indicators of success vary.

Selecting criteria for assessing spending

The criteria that define value for money in any given assessment can vary depending on the nature of the project or programme and the prevailing circumstances. Assessment can be made against a mixture of quantitative and qualitative factors, and should be designed to guide the thinking of budget holders and service leaders.

As a principle, criteria selected should be derived from overall public policy objectives and not just a need to reduce headline spending. Note that a purely quantitative approach to assessing value for money risks ignoring less tangible benefits of projects.

A selection of potential criteria that could be used is set out in the appendix to this document.

Building a balanced scorecard

The objective of a balanced scorecard approach should be to assess how successfully a given programme delivers its objectives, and to balance this against alternative provision and the impacts of cuts. This means that an appropriate weighting must be given to each criterion selected to avoid placing the burden of a spending cut on a narrow section of society.

Work by the USA's Center on Budget and Policy Priorities⁷ demonstrates the wide range of considerations that can come into play when addressing budget deficits. It indicates that using a variety of strategies is key to ensuring that no one sector bears the brunt of spending cuts.

Likewise, work by the UK's public sector audit agencies⁸ emphasises value for money as this encompasses effectiveness alongside efficiency. The report identifies a range of primary and secondary indicators of value for money that apply to areas of public sector activity such as procurement, estates, ICT and financial management. Such an approach can be used to prioritise assessments of value by ranking the relative importance of each indicator.

⁶ *Getting more for less: efficiency in the public sector*. Available from www.demos.co.uk

⁷ *A balanced approach to closing state deficits*. Available from www.cbpp.org

⁸ *Value for money in public sector corporate services*. Available from www.public-audit-forum.gov.uk



Interpreting the criteria

No single criterion will determine whether an investment represents good value for money. Rather, value for money is a complex assessment that requires methodical assessment of a wide range of factors.

Likewise, the relative weight that should be given to these criteria could vary from project to project. It may be that a project with a lower cost-benefit ratio overall proves to be more valuable to the nation for the indirect benefits it brings.



Appendix: potential criteria for assessing public investment

The following are a selection of criteria that could be used to build an understanding of value for money. A balanced scorecard of factors could be drawn from six broad headings to assess

Financial risks and benefits

- The overall return on investment to the public purse, e.g. through greater tax revenues, over the longer term (i.e. at least ten years).
- The overall savings that the investment will generate over the longer term (i.e. at least ten years).
- The amount of inward investment that could be attracted by the investment.
- The potential for spreading the investment over a longer period.
- The financial risks of delaying or cancelling the investment.
- The likelihood that private sector alternatives could be found.

Employment risks and benefits

- The number of jobs that would be created by the investment.
- The number of jobs that would be preserved by the investment.
- The number of jobs that could be lost by cancelling the investment and the cost of associated income support.
- The number of people that could be brought into the job market by the investment.
- The number of people that could be excluded from employment opportunities by cancelling the investment.
- The capacity of the private sector to employ those made redundant from the public sector as a result of spending cuts.

Enterprise risks and benefits

- The number of businesses that could be created as a result of the investment.
- The number of businesses that could be preserved as a result of the investment.
- The number of businesses that could be damaged as a result of cancellation.

Social impacts

- The likely overall impact on less advantaged areas of the UK.
- The potential impact of the investment on vulnerable groups.
- The social impact of replacing public investment with private provision.

Environmental risks and benefits

- The contribution of the investment to the UK's climate targets.
- The impact of the investment on ecosystems.



- The impact of the investment on quality of life.
- The impact of the investment on the quality of essential natural resources, e.g. water, agricultural land.

Educational and technological impacts

- The likely impact of the investment on the UK's skills base.
- The likely impact of skills loss from key industries such as engineering and construction.
- The likely impact of the investment on innovation and technological development.
- The impact of cancellation on the UK's research and development capacity.

Other public policy impacts

- The impact of the investment on other public policy priorities.