



Photo credit: iStock, bymuratdeniz

Value for money – a simply complex problem

June 2024

Auditor-General John Ryan describes the public sector’s value for money challenge

Value for money (VfM) is a concept that most people consider they understand well. Put simply, it’s all about getting “bang for your buck”. As a measure of performance, VfM helps public organisations to strike the right balance between what is spent and what is achieved.

To be able to demonstrate VfM, public organisations need to do two things. First, they need to understand the costs and cost drivers in their organisation, and how these affect the delivery and sustainability of services and the achievement of outcomes. Secondly, this information needs to be integrated into planning, reporting, and accountability processes. This helps to inform decision-making and prioritise existing and new investments as well as demonstrate what has been achieved.

Although that sounds simple, in practice it can be complex.

My Office comments regularly on VfM. In the work we do, getting basic information about what is being spent and what is achieved with that spending can be a challenge for many public organisations. We often see a lack of appropriate processes and information for identifying and demonstrating VfM, including:

- issues with understanding the cost to deliver services, impacts, or outcomes;¹
- a lack of clarity in describing and evaluating effectiveness;²
- little analysis of VfM or related measures, such as cost effectiveness or productivity;³

1 Controller and Auditor-General (2022), [Observations from our central government audits: 2021/22](https://www.oag.parliament.nz/publications/observations-from-our-central-government-audits-2021-22), at oag.parliament.nz.

2 Controller and Auditor-General (2020), [Implementing the firearms buy-back and amnesty scheme](https://www.oag.parliament.nz/publications/implementing-the-firearms-buy-back-and-amnesty-scheme) and [Inquiry into the Strategic Tourism Assets Protection Programme](https://www.oag.parliament.nz/publications/inquiry-into-the-strategic-tourism-assets-protection-programme) (2022), at oag.parliament.nz.

3 Controller and Auditor-General (2021), [The problems, progress, and potential of performance reporting](https://www.oag.parliament.nz/publications/the-problems-progress-and-potential-of-performance-reporting), at oag.parliament.nz.



Value for money – a simply complex problem

- a lack of efficiency measures;⁴ and
- incomplete, frequently changing, or complicated performance measures more generally.⁵

Measuring VfM is a challenge for other countries as well. For example, two recent House of Commons Committee reports found that the Government in the United Kingdom was unable to demonstrate that it achieved VfM:

- in public procurement worth £259 billion in 2021/22 because of issues with the quality and completeness of data;⁶ and
- from a borrowing programme that totalled £2.5 trillion over 20 years to 2023 because of a lack of appropriate measures.⁷

One possible reason for these challenges is that public organisations think about their performance in many different ways. Although this article emphasises the importance of VfM in accounting for the performance of the public sector, it is only one aspect of performance.

The term "value" can be expressed quantitatively or qualitatively. It can also relate to outcomes or objectives, or to services or outputs. There can be cultural, social, or environmental value as well as economic or monetary value.

There is also value in how well the public sector engages with New Zealanders and understands what is important to them, the trust that New Zealanders have in our public institutions, how we think about and plan for the long term, and how ethically public sector workers act.

The term "money" can also include concepts such as the value of time, opportunity costs, the price of risk, weighted costs of funding, and whole-of-life costs. Some of these concepts might not be readily understood or meaningful for the general public.

The approaches that organisations have taken to assessing VfM vary considerably. For example, the Ministry of Transport has developed a model to review VfM in assessing and evaluating transport initiatives. The model uses five criteria; focusing on the right thing, the ability to deliver, the good use of funds, the ability to achieve outcomes, and having the right people.⁸

When assessing the value for money of applications for funding to deliver public housing projects, the Ministry of Housing and Urban Development considers a weighted combination of four criteria, including the ability to deliver, fitness for purpose, financial viability, and price.⁹

Auckland Council established a "Value for Money Committee" that is responsible for proactive assessment of money-saving opportunities and considers the cost effectiveness of the governance, funding, and service delivery activities across the wider Auckland Council group.¹⁰ In outlining the benefits of various projects, the Committee noted a range of factors as relevant to VfM, including scale, innovation and technology, specialised management, increased utilisation and provision of services, and consistency in service provision.¹¹

4 Controller and Auditor-General (2023), [Observations from our central government work in 2022/23](#), at oag.parliament.nz.

5 Controller and Auditor-General (2021), [The problems, progress, and potential of performance reporting](#), at oag.parliament.nz.

6 House of Commons Committee of Public Accounts (2023), [Competition in public procurement](#), at committees.parliament.uk.

7 House of Commons Committee of Public Accounts (2024), [Managing government borrowing](#), at committees.parliament.uk.

8 Ministry of Transport (2021), ["Embedding Value for Money across the Intervention Life-cycle"](#), [Value for Money Framework Review](#), and ["A holistic way to deliver value for money"](#) (2022), at transport.govt.nz.

9 ["Providing public housing"](#) at hud.govt.nz.

10 ["Agenda of Value For Money Committee – Thursday, June 16, 2022"](#), at aucklandcouncil.govt.nz.

11 ["Agenda of Value For Money Committee – Thursday, June 16, 2022"](#), at aucklandcouncil.govt.nz.

The Treasury's advice on assessing VfM discusses the use of quantitative cost-benefit analysis as well as well-being impacts,¹² strategic alignment with Government priorities, risks, well-defined outputs, costings, assurance of effective delivery, and monitoring and evaluation.¹³

In its guidance on better business cases, the Treasury also refers to an assessment model from the UK Treasury's central government guidance on appraisal and evaluation (the Green Book).¹⁴ VfM is an important part of that assessment model and is reviewed based on the following criteria:

- the net social value of the option (the net value to society);
- the costs of risk and residual optimism bias, (the tendency for appraisers to be optimistically biased);
- the net whole-life cost;
- additional costs of including key objectives, the benefits of which are unquantifiable; and
- overall risk of the option to the public and the public sector.¹⁵

In addition to the Green Book criteria, the UK Treasury has another approach to understanding VfM called a "Public Value Framework". This framework uses four criteria – pursuing goals, managing inputs, engaging citizens and users, and developing system capacity.¹⁶

These differences in definition and approach extend to how VfM is reported on and accounted for in New Zealand. For example, each year the Finance and Expenditure Committee sends a Standard Estimates Questionnaire to each Minister responsible for appropriations within a Vote. One question asks what plans there are to assess the VfM of the proposed funding.

A brief review of eight organisations' answers to this question in 2023 suggests that there is considerable variation in how VfM is explained and accounted for. For example, most of the public organisations did not refer to a clear plan or assessment approach. Only one response referred to a VfM assessment model. One explained VfM in terms of stakeholders' perceptions, and another wrote about cultural attitudes and behaviours.¹⁷

Without a good understanding of how to measure VfM, public organisations will find it challenging to develop and maintain the right information to help them understand it. If they do not understand it, then VfM considerations are unlikely to be properly integrated into planning, reporting, and accountability processes.

Public organisations need to get the basics right. To have a good understanding of VfM there need to be systems in place to record and analyse cost and value. This is necessary for good decision-making. To ensure accountability for the decisions they make, public organisations should also be prepared to report this publicly.

There is work to do in these areas. For these reasons, increasing the focus the public sector has on the value for money of public spending is a key strategic objective for my Office. Building on our previous work, in 2024/25 we plan to explore in more detail how VfM is defined, assessed, reported on, and scrutinised by public organisations, audit institutions, and Parliaments.

12 Through its Living Standards Framework and related framework He Ara Waiora, at treasury.govt.nz.

13 The Treasury (2021), *T2021/2015: Value for Money Analysis in Budget 2022* and the Treasury's CBAX Tool, at treasury.govt.nz.

14 "Better Business Cases", at treasury.govt.nz.

15 "The Green Book and accompanying guidance", at govt.nz.

16 House of Commons Library (2021), *Assessing value for money in central government*, at commonslibrary.parliament.uk.

17 The answers to the Standard Estimates Questionnaire can be found on the relevant select committee websites at parliament.nz.