

The Centre for Social Justice

Response to the Spending Review Framework 2010: Maximising Social Value

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THE CENTRE FOR
SOCIAL
JUSTICE

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Introduction

1. The 2010 Spending Review framework¹ states that “There can be no justification for spending public money on programmes and projects without considering the impact on the outcomes that people care about.” (f1.9.) The Centre for Social Justice’s goal is to see the maximum social value achieved by the overall budget.
2. The purpose of this note is to recommend ways to improve the quality of departmental submissions for the spending review. Our aim is not to advocate the cutting or preservation of specific programmes or strategies, but to propose an approach which we believe will make the Spending Review more effective.
3. Our recommendations are the result of an ongoing six month study, the results of which will be publicly available in autumn.

Summary

4. We begin with a critique of the Spending Review framework. In our view, the framework makes it clear that departments will have to prioritise their programmes, but does not give sufficiently clear and structured guidance as to how this should be done.
5. We believe that achieving the maximum social value for the allotted budget requires that:
 - a. the government is very clear about the societal outcomes it desires and is consistent in valuing these outcomes relative to one another;
 - b. departments and contractors provide a number of competing programmes (or portfolios) for option appraisal, and that each option is cost-benefit analysed;
 - c. all options are justified in terms of the change in societal outcomes they will achieve;
 - d. departments make explicit statements about the strength of any causal claims in such appraisals;
 - e. all proposals include a plan for how progress would be monitored in the short, medium and full term.
6. We therefore lay out a set of specific recommendations which enshrine these principles, and which we believe would facilitate better allocation of resources both within and across departments.

1. HM Treasury, 2010, *The Spending Review framework*, London: HMT (Cm7872)

Critique of the framework

NO STRUCTURED GUIDANCE

7. The framework itself, and the government's request that departments plan for 25% and 40% reductions, send a clear message to departments that they need to prioritise their activities and that the Treasury will be scrutinising claims closely. However, there is little structured guidance as to how the prioritisation should be carried out.
8. The "tough criteria" (f2.5) are somewhat ill-defined, ad-hoc and overlapping:
 - a. "Is the activity essential to meet Government priorities?" (f2.5) is an important question, but there is no suggestion in the framework as to how such priorities will be established or transmitted across government. (See 10. below.)
 - b. "Does the activity provide substantial economic value?" and "How can the activity be provided at lower cost?" and "How can the activity be provided more effectively?" can be summed up in the question: *"Is this the best possible use of this money?"*
 - c. "Does the government need to fund this activity?" and "Can the activity be provided by a non-state provider or by citizens?" and "Can local bodies as opposed to central government provide the activity?" again ask effectively one question: *"How is the outcome best achieved?"*
9. While the criteria questions are useful points to consider after plans have been prepared, they do not provide a structure for tackling the allocation question in the first instance. The fundamental question for departments and other organisations is **"How can we maximise the value of social outcomes, given the resources available?"**

CONFUSION BETWEEN ACTIVITY AND OUTCOMES

10. Although the framework requires departments to demonstrate that their activity is essential to achieving government priorities (f2.5), the focus throughout the document is on urging departments to "consider fundamental changes to the way they provide vital services." (f2.3.) There needs to be a clear recognition that the government's priorities should be about the societal outcomes it hopes to achieve and not the services it provides: what matters ultimately is the level of crime and people's feelings of safety, for example, rather than the number of police or arrests.

CONFUSION BETWEEN PRIORITY SETTING AND PERFORMANCE MANAGEMENT

11. While we agree that it is right to end the "complex system of Public Service Agreements" (f2.7), we are concerned that what was good in them – that they sought to articulate the government's highest priorities – risks being discarded.

The framework speaks of a consultation “to consider the best structures for ensuring departmental accountability for achieving more with less.” But before deciding on accountability structures for performance, the government needs to give departments a clear statement about what it wants “more” of.

REVIEW NOT INBUILT

12. While the framework states that departmental business plans will “include the key statistics and data that the public can use to hold departments to account” (f2.7), this is not a requirement of the prioritisation criteria – but it should be. That the progress of a spending plan can be measured, and that the expected changes are stated clearly in advance, should be required in order for resources to be released. The Treasury needs to know if money is being spent with fidelity according to the original plans.

CONSEQUENCES

13. A number of negative consequences flow from focusing on how departments can carry out the same activities for less money, and from conflating genuine priority setting and performance management.
 - a. It is likely to bias departments towards protecting existing programmes;
 - b. it may discourage departments from looking at evidence-based programmes that achieve outcomes more effectively;
 - c. it may prevent fresh thinking about how other departments and private contractors could achieve an outcome more effectively;
 - d. and it risks discouraging genuine engagement about the strengths and capabilities of the private and voluntary sector.
14. Moreover, failing to build review into the proposal will make it harder to detect emerging failures and result in more wasteful spending.

Proposal

15. The framework states that the Treasury is providing guidance to departments to allow them to plan. The rest of this paper lays out some suggestions designed to address the shortcomings described above, which could be incorporated into the guidance.

OUTCOMES

16. The first step is for the Treasury to ask departments to state clearly the outcomes for which they believe themselves to be responsible. It is very important to be clear on what an ‘outcome’ is:
 - a. An outcome is a change in *society*, rather than a change in *departmental activity*;
 - b. An outcome must be capable of being comprehensively determined by a relatively small set of indicators; and conversely the indicators for an outcome must define it fully.

17. Indicators determine how an outcome can be measured, in practice – representing what the government is *really* interested in.
- a. For example, if an outcome is “reduce levels of crime”, indicators would have to include measures of violence against the person, and measures of burglary.
 - b. The government also needs to be clear about how much it will value a change in the different indicators which together give a good picture of the outcome.
 - c. The CSJ is happy to provide more detail about the formal characteristics of a “good” indicator, as well as some indicators which we believe are important but were not considered by the previous government.

VALUING OUTCOMES

18. A change in an outcome – measured by a change in the indicators – needs to have an explicit value attached to it. This is necessary for government if it is to make consistent decisions on how much it is prepared to spend on achieving each outcome.
19. It may seem that different outcomes cannot be compared. How do we compare, for example, the value of 100 more school-leavers able to read and write with the value of 100 fewer workless households? But the fact is that by making spending decisions, the government makes such trade-offs between outcomes all the time. At present, these trade-offs are implicit, opaque, and often inconsistent. We suggest that, for the purposes of budget allocation, such valuation should be done explicitly and consistently.
20. The value of an outcome has three distinct components: fiscal, economic, and non-economic. The first is the value of a change in the outcome to the Treasury (and ultimately the taxpayer) in terms of reduced future expenditure or increased tax (or vice versa);² the second is the effect on GDP (ultimately an individual’s income); and the third is the value of non-economic benefits of a change in outcome – such as wellbeing.
21. Values assigned to outcomes should be expressed as a net present value of a change in the indicator so that the future benefits of an improvement can be included in the valuation.

PRIORITISING PROGRAMMES

22. The Treasury’s role is to ensure that marginal spending across government maximises social value: that the social value achieved by every additional pound spent is as high as possible. Once there is a clear framework of valued outcomes, departments must also ensure that their marginal spending maximises social value.

2. The Washington State Institute for Public Policy – amongst others – has an established methodology for assessing fiscal value.

23. The simple fact of having clearly stated and valued outcomes will make the process of finding the right policy much simpler, since the purpose of spending is made absolutely clear.
24. This should be done according to a “productivity case” which follows the cost-benefit approach laid out in the Green Book, but with the following important differences:
 - a. The productivity case links the funding input to organisational outputs, and links those outputs to changes in outcomes. Value is only achieved through a change in outcomes.
 - b. It should have an explicit discussion of the strength of the evidence used to understand causality and the size of an effect. This needs to be true both of causal claims about the effectiveness of a particular programme (for example, the claim that a reading strategy will improve literacy), as well as causal claims about the effect of departmental outputs on outcomes (for example, the claim that increasing the number of probation officers will reduce reoffending and therefore crime levels).
 - c. Departments should not be bound by thinking in terms of ‘outcomes’ for which they have traditionally been responsible: for example, if a DWP programme could be shown to reduce offending, then the DWP should include this value in its social cost-benefit calculation. Many programmes will affect more than one government outcome.
 - d. Departments should be encouraged to submit proposals for programmes which achieve outcomes in the medium- or long-term, with the value achieved in the future discounted to present values; so this can be compared to programmes which achieve a quick change in outcomes.
 - e. The social cost-benefit analyses should be used to rank proposals.
 - f. The productivity case needs to state clearly what outputs it expects to achieve within particular timeframes, as well as the change in outcomes it expects within particular timeframes.
25. All departments should submit a number of options for appraisal; and the Treasury should be robust in demanding that ‘serious’ alternatives be given. Each programme should be evaluated according to updated Green Book procedures and ranked according to its social value for money. Only those proposals which achieve the highest social value for money should be invested in.
26. This approach can be used to assess existing spending as well as new programmes. If departments balk at the idea of establishing the true productivity of their existing programmes then the Treasury should insist that this procedure is followed at first for their most expensive programmes. Those which are shown to achieve poor social value should be scrapped.

COST-ACCOUNTING

27. Productivity cases should include clear statements of cost broken down by activity.
28. One primary form of accounting should be established, and a clear template developed for cost information.
29. Departmental board materials need to be prepared in a clear and consistent way showing cost information that allows for straightforward insights into productivity, and for the cost-effectiveness of programmes.

ACCOUNTABILITY

30. Finalised productivity cases should be made available to the public at the time of the CSR.
31. We propose a system of “milestones” rather than “targets”. Productivity cases need to be very clear about the changes they expect to see in outputs and outcomes, within particular timeframes – this is essential for a proper understanding of the potential productivity of a proposal. When accepted, these should become the milestones by which the spending is judged. These should be communicated clearly during the budget allocation stage.
32. It must be made clear that failure to achieve pre-agreed milestones could lead to funding for particular programmes being stopped during future budgets.

CROSS-DEPARTMENTAL ALLOCATION

33. Consistently valued outcomes will allow the social value for money of spending to be comparable across government. The Treasury should use this tool to inform its decision on budget allocation between departments. At some point, the value of spending in one department will not achieve as much as spending in another, at which point spending should be switched to the latter.
34. The ‘star chamber’ described in the framework could be the mechanism to ensure greater consistency in the value of outcomes delivered by departments according to their budget allocation.

Conclusion

35. This note has presented a summary of relevant proposals from the ongoing CSJ research into social value for money.
36. The government can turn the monumental task of reducing the deficit into an opportunity to revolutionise its approach to spending decisions. A clear view of the purposes of government spending, and the logical and consistent approach sketched out above, will allow government to maximise social outcomes given the available resources.

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