

## ***Value for money in a whole of Government Context***

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*This paper accompanies the PowerPoint slide-set to be distributed at the seminar*

### **Introduction**

Good morning, everyone, and thank you for affording me the privilege of speaking at today's forum. For the last twenty five years, I've taken very keen interest in the subjects of value, values and value for money and, through research, teaching, and practice, I've applied that interest to major projects and systems internationally. Whilst my work has involved many private sector projects and systems, by far the majority of my work has been to do with government projects.

My journey into this field began in the 1980's, when working in a joint venture between the University of Canberra (where I was a senior academic for 23 years) and the New South Wales Government. At that time, a group of us helped to write Government policy, practice notes and develop implementation strategies for the then emerging discipline of Value Management. By extension, we further-developed the broader field of Strategic Asset Management in pursuit of best value for money for the whole of government.

This morning, I hope to share some of the more-critical lessons that I have learnt in my own learning-journey over those years.

### **Lesson one – Value: it's not about cost-cutting**

During the early stages of my learning journey, a major emphasis of our work was on cost savings. Indeed, we were invariably asked the question, "how much money was saved?" after having completed a Value Management workshop. One of the first lessons we learnt is that whilst saving costs is a good thing to do, and desired by most jurisdictions, there are serious disadvantages in *only* pursuing a "cost saving" strategy. Almost all of our early workshops resulted in cost savings: in some cases, very significant cost savings. A common response from our clients in government was *delight* at the savings that had been made, but *regret* that the whole exercise had not been done sooner. The clients recognised that had the Value Management exercises been undertaken earlier in the development of their projects, then far more benefits would have accrued.

We responded to our clients' observations and requests, and began to conduct our Value Management work earlier and earlier in project development. This trend continued until, surprisingly, we began to conduct studies even before a project brief had been written; even before a budget or estimate had been prepared.

The benefits of this approach were immediately apparent to those clients for whom we had previously conducted studies of projects late in design, where many millions of dollars of costs had been saved. These clients could see that by having the studies conducted very early in the piece, it was possible to build in value from the ground up and avoid the need for later changes and consequent disruption.

But there was a catch. You see, whereas people would invariably ask us how much money had been saved when we'd worked on projects *late* in the design (which already had budgets and estimates), when the same question was asked after we had conducted Value Management studies very *early* in planning and design it was literally impossible to answer. The reason is easy to see - there was no budget and no estimate - we were starting from scratch.

The irony is that that there is far more benefit to the project and to government as a whole if this work is done early. I have absolutely no doubt that value and value for money are enhanced significantly by such an approach. But the attractiveness of "cost savings" as a measure of effectiveness is often too tempting to ignore.

I want to stress, however, that once "cost savings" are established as a measure of performance or effectiveness of a process, then that process will inevitably shift focus to those areas where cost savings are demonstrable – meaning that we miss out on the opportunities to seriously improve value for money - which is where my learning journey takes us next.

## Lesson 2: "Value and "Value for money" are not the same thing

### Value

I will now turn my attention to the question, "what is "Value" and "Value for money" from a Government perspective? The notion of "value" is, indeed, a fascinating subject with which philosophers have wrestled for centuries. A problem that immediately arises is that the term "value" is used in so many different ways and in very different contexts and there is no universally agreed definition of value within or between governments. We realised that we needed to agree to a common language relating to value and value for money for the purposes of our work in Value Management and by extension, to demonstrating value for money from government programs and projects.

In coming to grips with all this, it is worth asking the question, "Why does anything have value?" Through extensive action-research and practice, we have recognised three core elements or *factors* that, collectively, determine the extent to which anything is perceived to have value.

These three factors work at the micro level – for example in assessing individual parts or components of building projects; at a whole project level; at a program level; at a system level, as well as at the macro or whole of government level.

I'll spend a few moments now explaining these factors and how we can use them.

The first of these three factors is "useful purpose". If an entity is perceived to have no "useful purpose" it is likely to have no perceived value at all (to the one perceiving it). The second of these factors is "benefits", or "beneficial outcomes", that is to say, the set of benefits that will flow from fulfilling the useful purpose. The third factor is the set of "important features or characteristics" relating to the entity.

The way in which these three factors work together to determine value may be seen by considering an example such as the Singapore MRT. One vitally important point that I must emphasise is the necessity to consider these three value factors from a number of different perspectives. So, for example, from the point of view of the passenger, the useful purpose of the train is that it takes one from point A to point B. If the train does not do this, then to the passenger, it has no value at all. But assuming that it does take the passenger from point A to point B, the question of value does not end there. One benefit of fulfilling the useful purpose might be that the train enables the customer to get to work on time: so this is *also* a factor in why the train has value to the passenger. Features or characteristics that are most important to the passenger might be the frequency, regularity and reliability of the service. Clearly, a more-reliable train is likely to have more value in the eyes of the passenger than a train that is less-reliable. We could add other points, too, such as personal safety and comfort. Indeed, if we were to bring together a group of MRT passengers and discuss these factors with them, we would probably produce quite a long list of elements but we would be able to place them all beneath the headings of: useful purpose, benefits and important features or characteristics.

If, for a moment, we were to change perspective and consider the value of the train from the point of view of the train driver, an entirely different set of *value factors* would emerge. For example, the "useful purpose" of the train would have nothing at all to do with taking someone from point A to point B. Rather, the useful purpose of the train would be to provide employment. A benefit of this is that it enables the train driver to "put food on the table". An example of an important feature or characteristic might be "health and safety at work". So even though we are considering the same train, the *value factors* from the point of view of passengers and train drivers are substantially different. We could keep the exercise going and consider the value of the train from the point of view, say, of the Ministry of Finance or Singapore tourism. Again, each would have their own perspectives. So it is with any entity. There will always be multiple perceptions of useful purposes, benefits and important characteristics. It is important that we have appropriate processes that enable us to capture these perspectives and translate them into project requirements.

### Value for money

To this point, I have described the factors that determine the perceived value of something from various perspectives but, importantly, I have made no reference whatsoever to money. In order to understand this notion of "value for money", we must recognise that "value" and "money" are not the same thing, hence the term, "value for money".

Taking the term “value” to mean the combination of the useful purposes, beneficial outcomes and important features of the entity (as described earlier), we see the relationship between value and money in the following diagram (figure 1)

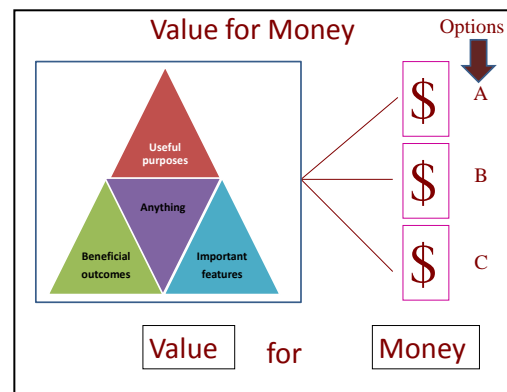


Figure 1

When we are referring to "value for money" we are *always* dealing with comparisons between options. The term “value for money” makes absolutely no sense apart from in a comparative sense. When we say something delivers “good value for money”, we are implicitly making a comparison with something else, that, presumably delivers “less-good value for money”. As long as we keep “value” and “money” separate we should always be able to see which options, from a range of options, deliver best value for money.

Establishing the value factors is the first step in building *shared knowledge and understanding* amongst stakeholders and project team members in the Value Management process.

### **Lesson 3 – We need to take a “whole system” or “whole of government” perspective**

Another lesson learnt along the way is the need to place every project in a systemic context. By extension, this means taking what we often call a “whole of government” or “whole of economy” perspective. We observed (and still do observe) the tendency to optimise parts of systems at the expense of the system as a whole. There is a maxim that has guided my thinking in this regard for many years. Here it is:

*“When each part of a system performs as well as possible, the system as a whole will seldom perform as well as possible.”*

The application of this principle to major projects is in ensuring that we *intentionally* optimise the “whole entity”, not the individual parts. We face a major challenge in building design and construction because so many of the parts are, indeed, designed and constructed independently of the whole. And, of course, each designer seeks to provide the best result for those parts – this is entirely understandable: indeed, one would expect nothing less. Yet in doing this, one may unwittingly be compromising the performance of the “whole”.

We have seen it at the micro level where individual parts or components of projects are optimised at the expense of the project as a whole, and we have seen it at the macro or whole of government level, where programs or projects have been treated in isolation, without reference to the broader whole of government perspective.

I’ll now give an example of seeking best value for money on a specific project, but from a whole of government perspective. I have vivid recollection of seeing these principles at work on an occasion when we were undertaking a Value Management study of a proposed new major hospital. The study was undertaken following a departmental decision to *close down and demolish an existing facility* (much of which was in pristine condition) and to construct a new facility on a green field site. At the commencement of the workshop, a view was strongly put forward by the project-architect that it was impossible to re-develop the existing facility.

Part of the Value Management study involved placing the hospital in the context of a “whole health-care system”; that is to say, we did not focus on “bricks and mortar, columns and beams, floor space, etc”. Instead,

we focused upon the health-services to be delivered in the hospital, seeking to align the physical facility with delivery of those services.

It was here that government plans for the delivery of health services in this region came into sharp focus, and allowed health-planning recommendations and assumptions to be questioned, tested and challenged (by the health professionals). This exercise led to the strong conclusion that, from the perspective of the health service as a whole, and, by extension, the whole of government, that all of the health services planned for this region, could, indeed, be properly delivered within a re-furbished facility and that a new, green-field site could not be justified.

The decision led to dramatic reductions in capital and recurrent expenditure, but note that we did not take a cost cutting approach. It was clear that, from a “whole of government” view, the proposed solution would have delivered very poor value for money. In addition, it would have prevented many other health programs from being started by absorbing so much of the government’s budget.

I’ll mention one last point before leaving “whole systems” and moving on to other issues. I read, recently, an internal paper written by the immediate-past Head of Treasury in Australia, Dr Ken Henry. The paper was addressed to Treasury staff, but was made public. At one point in his paper, Dr Henry said, “Many of the policy problems that we face today have a whole-of-government character. There is no room for silos between central, line and operational agencies; nor between levels of government.”

In the pursuit of value for money for the whole of government, this matter of silos is really important and deserves close attention. I have come across numerous situations where this “silo” phenomenon is present and seriously threatens the achievement of best value for money for individual projects or for whole of government. It may reveal itself in any number of ways but will certainly lead to ineffective interactions between project players. But I’ve seen the opposite at work, too. Here in Singapore, the Chief Executive of a Government agency gave an inspiring welcome to the workshop participants when he told them that he really wanted to achieve the best outcome for the project, but more than that, he wanted the best outcome for the people of Singapore – and if that meant sharing space and facilities with other agencies then so be it. With attitudes like this one, we have an excellent opportunity to achieve best value for money, so long as we have the mechanisms and structures in place to bring the players together seeking the best outcomes for the both the project, and the system as a whole.

#### **Lesson 4 – Information is not knowledge, and knowledge needs to be shared amongst project players**

It was Albert Einstein who is credited with first making known the truism – “information is not knowledge”. Along my learning journey, I have built a collection of case studies, many of which demonstrate this important principle. What I have learnt, is that just because a piece of information exists, we cannot safely assume that anyone on a project team has knowledge of it and, even more concerning, is that even if one or two people do have knowledge of it, we cannot safely assume that the knowledge is shared amongst the team players.

Despite the breathtaking array of IT available to us, and note that it’s *Information Technology* – aptly named – information is still not knowledge, and many argue that receiving hundreds of e-mails, all carrying information, may not necessarily help us to build more knowledge.

I have learnt that just one piece of information can have a huge effect on planning and design. Let me share an example to illustrate this. In doing so, I stress that in this case, and many others that I could cite, no one had made a mistake. The problems were systemic in that there was no mechanism in place to ensure that information became shared knowledge in the project team.

This example comprises a new, large, regional Police station. When we conducted a Value Management workshop, the building had been completely designed and was ready to go for tender. During the workshop, it became clear that an important feature had not been identified in the brief or specification. The representative of the Minister for Police in the workshop explained that the new facility itself must portray a “community-based policing strategy”. That is to say, it must, amongst other things, be welcoming, non-threatening and seen to be part of the community in which it is placed. This information had never been communicated to the design team and consequently, they had designed a building which did not capture this requirement but which responded to the standard design brief and specification issued to them. The new requirement had come about *as a direct result of a change in policing policy at ministerial level*. The new policy, it seems, had enormous consequences for facilities but this had not been thought through or communicated to the facilities planning unit and, therefore, not to the design team either.

Here, we see a critical piece of information that was known to the people in the Police Minister's office, but completely unknown by anyone in the building department or project team. It was new policy, yet to be promulgated. The consequence of this discovery was that the original design was abandoned even though it was 100% complete. A new design was subsequently developed, capturing the client's requirement and costing substantially less than the original design in both capital and recurrent costs. As in the previous cases I have cited, costs were saved, even though cost savings per se were not being pursued. The Police Department and the government received much better value for money for the revised facility.

In other cases, critical information has been known by only a few players, and not shared with other members of the team. This is a common occurrence in planning and design of facilities and infrastructure where there are so many specialisations at work. It's the systems principle that I referred to earlier – each part does its own thing and holds on to its own information. But what we have learnt is that where information becomes knowledge and is shared broadly amongst all project players, all sorts of issues are raised, frequently leading to much better value for money outcomes.

The major lesson to be learnt here is that we need to ensure that there is some sort of mechanism that can really aid communication between all players. Clearly, I *don't* mean just collecting and distributing information. No. We need mechanisms that enable project players – that includes the stakeholders, not just the planning and design professionals – to meet together and, in a structured way, *work together* through project development, equipped with shared knowledge and understanding from a whole system point of view. In this way, everyone can still pursue their own specialisations, but always keep an eye on the whole system and seek best outcomes for the whole system. Without this shared knowledge and understanding we are very unlikely to achieve the best for the "whole". We will continue to seek the best for the individual parts and miss out on opportunities to enhance value for money for the whole of government. The earlier in the life of a project or any entity that such interactive meetings can be held, the better opportunity we have to bring about best value for money for whole of government .

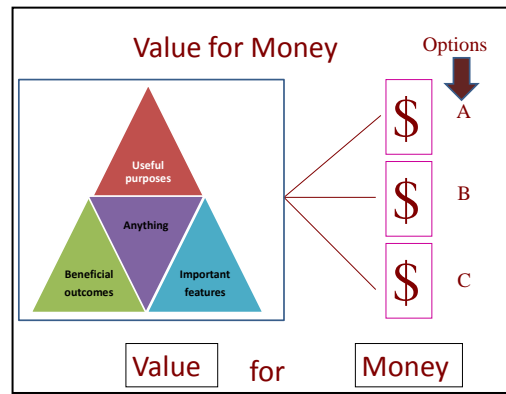
#### **Lesson 5 – What you measure is what you get**

The final lesson that I'll share with you today is captured in another maxim – "what you measure is what you get". It strikes me as very interesting that our system or method of measurement can actually influence value for money. How can this be, I wonder?

You have probably all have heard of cases where performance measures have been put in place resulting in very undesirable consequences. For example, there are the oft quoted examples of Police Officers suddenly nabbing people for all sorts of minor offences for no other reason than that an "efficiency audit" has recommended performance measures that count the number of arrests made. No arrests, no promotion – and certainly no reduction in crime; indeed, crime could get actually get worse because Police officers are forced to take their eye off the main game. There's definitely no improvement in efficiency or value for money here. But the figures might look good. When my daughter was serving as a volunteer teacher in a school in China for two years, she learnt very quickly to avoid a visit to the emergency department of the local hospital unless it was absolutely essential. This was because she found out that the nurses at the hospital were assessed and paid on the number of drips they inserted into patients – regardless of the need for drips – and it was standard procedure to put every patient on a drip – I'm serious! There's no value for money here. We don't get value for money when we do things that are not needed.

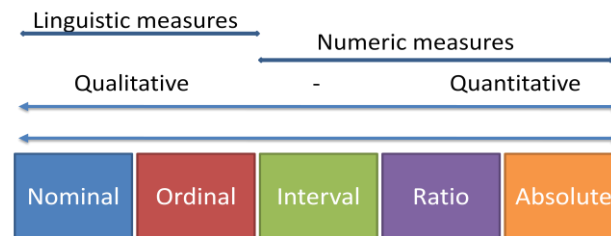
The same goes for the first lesson that I described at the commencement of this presentation – if we focus on cost savings alone, then the system will shift to create cost savings – but there might not be any improvement in value for money.

Measurement is a serious business, and often the source of conflict. When it comes to measuring value for money, what, exactly are we measuring and how do we measure it? When I described the value factors earlier, I stressed the need to separate "value" from "money". Here's the diagram that I used:



When we are dealing with projects late in design or construction, then we have actual dollars to work with. We can count them and these are our measures. When we are working at the very early stages of planning and design – pre-budget and pre-estimate we have no details and no dollars but we can still measure them; and we can measure the value, too.

How can this be? We must recognise that measurement theory incorporates several types of measurement ranging from nominal to absolute as shown on the following diagram.



At the right hand end of the spectrum, we see the absolute measures. They're quantitative. We can count them, just as we can count the number of light fittings or people in this room. These are the numbers that that most decision makers love.

At the left hand side of the spectrum, we have nominal and ordinal measures. The measures here tend to be expressed as greater than/less than; larger than/smaller than; better than/worse than; and so on. They tend to be qualitative measures, expressed in words. These are very appropriate measures in assessing value for money. Recalling what I said earlier about value for money being a comparative term, it is possible for a group of people to assemble in a structured forum/workshop and exercise their collective judgment using ordinal measures. We can see, for example, from our professional experience and all of the shared knowledge and understanding that we, as a group have, that option A will deliver better value for money than option B. That option C will be better than both option A and B, but that option D is better in some areas but not all. We cannot quantify in monetary terms the cost of each option, but an informed group can say, option A will cost more than option B and so on. These are ordinal measures and perfectly suited to measure value for money.

We can tabulate these measures. We can even use numeric characters to express them (e.g. the numeric characters 5,4,3,2,1, can be used to represent excellent, very good, good, fair and poor) but they're still qualitative.

My major lesson learnt here, is that there is no point trying to use quantitative measures at the early stages of projects: qualitative measures are what is needed. If we measure value for money, we are likely to focus on value for money, and qualitative measures help us to do that.

### Conclusion

In bringing this to conclusion, I reiterate five important lessons that I've learnt in my ongoing learning journey.

Lesson one – Value: it's not about cost-cutting

Lesson 2: What is "Value" and "Value for money" from a Government perspective?

Lesson 3 – Taking a "whole system" or "whole of government" perspective

Lesson 4 – Information is not knowledge, and knowledge needs to be shared amongst project players

## Lesson 5 – What you measure is what you get

By making early interventions into planning and design, and ensuring effective interactions between all project players, including stakeholders, we place ourselves in the strongest position to achieve best value for money for our projects within a whole of government context.

Thank you.

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