

Appendix 3

Section 1: Quick Reference Guide to Value for Money Assessments

Questions	Answers	References
What is a “Value for money” (VfM) assessment?	A VfM assessment is a judgement about the price of a service in the light of the perceived value of that service. The ODPM requires that all Supporting People service reviews include a consideration of VfM.	Grant Conditions 3(1)(c)(i) Statutory Guidance para.63
What are the different types of VfM judgements?	<p>A Cost Effectiveness Analysis (CEA) compares the costs of services that aim to achieve similar outcomes – for example the comparative costs of two different accommodation based services that support people with high levels of mental health needs.</p> <p>A Cost Benefit Analysis (CBA) compares the costs and benefits of different types of services that don't necessarily aim to achieve the same outcomes – for example extra care sheltered housing versus residential homes. Services being compared may target different user groups and/or very different levels of need.</p> <p>CBA is generally more complex than CEA because CBA requires good information about the effects of different types of service on policy outcomes and the valuation of these benefits in monetary terms.</p> <p>Whilst service reviews focus on cost effectiveness analysis, Commissioning Bodies need to consider the more challenging task of cost benefit analysis. This will assist them in agreeing priorities for funding across a diverse range of very different services.</p>	
What is the difference between VfM and Price?	<p>Price indicates only how much has to be paid for a service and takes no account of the outcomes or benefits of the service – i.e. its value.</p> <p>Price is an absolute measure – i.e. it can be easily quantified in currency units (pounds, euros etc.). The most useful measure of price is often the unit price i.e. the price to be paid for each unit of service e.g.</p> <ul style="list-style-type: none"> • £500 per place per week or • £25 per support hour or • £5,000 per homeless drug user re-housed and enabled to live without dependency. <p>Value can also sometimes be measured in currency units (e.g. an unoccupied house may be valued at £200,000) but in the case of support services we are interested in the value of a service as represented by its benefits and outcomes. In some cases these benefits may be expressed as a financial value. For example a floating support service may be a lower cost but just as effective alternative to a more expensive accommodation based service. In this case the cost of the latter minus the</p>	See the overview diagram which follows this reference guide.



Questions	Answers	References
	<p>former can be viewed as better value and expressed as a cost saving.</p> <p>Value for money takes account of both price and the value of a service. <i>(See definition of value on Page 5)</i></p> <p>VfM is a relative concept – i.e. the VfM of any given service can only be measured relative to other services; there is no absolute measure of VfM.</p>	
<p>How is value determined?</p>	<p>The value of a support service is its contribution to desirable outcomes e.g.:</p> <ul style="list-style-type: none"> ● Contributing to strategic priorities; ● Meeting identified demand; ● Targeting people in need; ● Delivering good quality; ● Satisfying service users and stakeholders; ● Meeting aims and objectives; ● Meeting contractual obligations ● Financial savings (e.g. preventing the escalation of need, reducing cost pressures for linked statutory provision) ● Intended Benefits (Outcomes) for Service Users. <p>The various service review guidance documents and tools can assist in assessing these outcomes (e.g. the performance framework, QAF, strategic relevance and demand questionnaires).</p>	<p>Strategic Review: Key requirements for assessing the strategic relevance and demand of Supporting People services</p> <p>Quality Assessment Framework</p> <p>Involving service users in service review and validation visits</p> <p>Involving stakeholders in service review</p> <p>SP Performance Framework</p>
<p>What is the difference between Price and Cost?</p>	<p>Sometimes a distinction is made between Price as the amount that the purchaser(s) pay(s) for a service and Cost as the expense borne by the provider in delivering the service. However, this distinction is not always translated to the use of the term cost. For example the term unit cost is often used to mean the unit price paid by the purchaser(s) for a unit quantity of service (e.g. weekly cost of support in an accommodation-based service, an hour of floating support).</p>	



	<p>The distinction is however useful when comparing the financial position of the provider and purchaser in relation to a service. For example in this context, if the price is greater than the cost then the service generates a surplus or profit for the provider. If the reverse is true then the service makes a loss.</p>	
<p>What is the price of an SP service?</p>	<p>The price of an SP service may be considered in different ways and may include one or more of the following:</p> <ul style="list-style-type: none"> • The weekly (or annual) price paid by from the local SP budget; • The weekly (or annual) contributions from all public budgets (e.g. including SP, health, social services, Homelessness Directorate etc.) [NB only income that is funding housing-related support should be counted when considering the price of SP services.] • The weekly (or annual) total contributions from all sources including charitable grants and donations and other sources such as sponsorship. <p>VfM assessments should ideally take account of the full cost to the public purse (i.e. the second case above). Some sensitivity will need to be exercised on how to consider any funding sources which are time limited, for specific initiatives outside of the 'core' service being provided and/or secured through providers' independent fundraising efforts.</p>	
<p>Can VfM judgements be based just on price per service user per week?</p>	<p>No. VfM judgments must, include, amongst other things, an account of the intensity of the service (i.e. the level of support provided) in order to be meaningful. One way of doing this is to compare costs on the basis of cost per hour of support. Another approach is to compare only services that are meeting very similar needs and achieving very similar outcomes.</p> <p>VfM judgements must also take account of the value of the service – see above.</p> <p>For a more detailed explanation, refer to earlier ODPM guidance entitled “Service Review: Assessing Value for Money in Supporting People services”.</p>	<p>Assessing Value for money in SP services, ODPM</p> <p>Available on SP Kweb; General documents, Finance and Contracting</p>
<p>How do I compare services in terms of costs and value?</p>	<p>Benchmarks are numerical measures used to compare cost or value between different services and include unit costs and performance indicators. Nationally published benchmarks for SP services are currently relatively limited although ODPM has published national and regional analyses of SP funding of different types of services for different user groups based on the “Platinum Cut” data. These provide the cost related benchmarks used within Batch 1 and Batch 2 questionnaires. You should, however, also be in a position to consider relative cost and value benchmarks across local services and with other AAs with whom you have developed a working relationship.</p> <p>Benchmarking is the process by which benchmarks are compared to consider the relative position of costs or value. Once this has been undertaken further benchmarking usually focuses on good practice i.e. a service or</p>	<p>Supply Analysis Practice Aid</p>

	area of business management that is worthy of a more full assessment because it is performing or has value that you aspire to or wish to learn from. The findings of external reviews are also often used to identify these important reference points.	
What factors can legitimately lead to high-priced services?	<p>The most common contributing factor to high priced services is the number of staff employed. When considering services with a high cost-per-service-user-per-week AAs should consider the appropriateness of the staffing levels. Other contributing factors can be:</p> <ul style="list-style-type: none"> • Specialist services requiring more highly qualified and experienced staff (e.g. services for people with challenging behaviour, people for whom communication is difficult etc). • High running costs arising from the nature of the service e.g. high travel costs in a rural floating support service • A need to operate a service at less than maximum utilisation in order to be able to respond to periods of high demand for emergency referrals e.g. domestic violence refuge or a direct access hostel <p>A local labour market where there is a shortage of suitable staff (demand for staff is greater than supply).</p>	
What factors can lead to low-priced services?	<p>Low-priced services are usually those serving people with low support needs. A number of other factors may lead to low prices:</p> <ul style="list-style-type: none"> • Funding from a range of sources, with SP only responsible for a small proportion of the total; • Cross-subsidy or loss-making (deliberate or otherwise) by the provider; • Under-resourcing leading to staffing levels that are too low to provide a quality service; • Low contribution to central overheads leading to an inadequately resourced provider organisation; • Low paid staff leading to recruitment and retention problems or the recruitment of staff lacking necessary skills or experience. • Efficiency gains or economies of scale achieved which have not been replicated/are not possible within other services. • Market conditions where a large number of suitable providers have competed for business. 	
Should providers be allowed to make profits or secure reserves at the	<p>Yes. Private sector providers are motivated (at least in part) by profit. If they cannot make a profit from their services they are likely to leave the market, thus leading to a reduction in supply and in choice.</p> <p>All organisations, including not-for-profit sectors (RSL, Local Authorities and Voluntary Sector agencies) need reserves to carry them through periods of financial difficulties (indeed SP providers are required to be financially</p>	Accreditation Of Providers Of Supporting



expense of the AA's budget?	reserves to carry them through periods of financial difficulties (indeed SP providers are required to be financially sound) and meet development costs. Reserves are only built up through the accumulation of annual surpluses, which are necessary in order to ensure financial stability.	Supporting People Services, ODPM
How does the SR04 questionnaire assist in VfM assessments?	<p>The Batch 1 questionnaire provides AAs with a schedule of all services that they fund, together with the unit costs of the service and comparative figures for similar services within the authority and within the region. Data is pre-populated comparing your local Platinum Cut data with Golden Cut data together with a view of the national and regional picture. Although this data takes no account of the intensity of the service (i.e. the level of support provided) it can be a helpful starting point in identifying apparently very high or very low cost services.</p> <p>The Batch 2 questionnaire will enable ODPM to begin to analyse the key drivers in the operational costs of services - the detailed staffing and running costs information provided will enable a preliminary understanding of some of the main cost structures found amongst different types of support services. The questionnaire enables AAs to gather information in a standardised format that allows them to understand the principal elements of costs and the range of unit costs within the pre-selected sample of services examined. The questionnaire also collates information on strategic relevance, demand, service outcomes, performance and quality – all essential data on which to base VfM judgements.</p>	Batch 1 and Batch 2 Questionnaires sent to your AA.

Section 2: Good Practice in Making VfM Assessments

The table below suggests some good practice standards for undertaking VfM assessments. These standards aim to embody the partnership approach to Supporting People whilst recognising that ultimately AAs must determine what services will be purchased and ensure Value for Money is demonstrated using available resources. The last column of the table identifies relevant links to the SR04 data collection exercise.

Principle	Standard	Mechanisms	SR04
Integrated	VfM assessments should contribute to a 360° appraisal of services i.e. as part of a service review. They should not be stand-alone judgements.	By conducting VfM assessments as part of service reviews AAs will have access to the necessary information concerning the value of services. (Without this holistic approach to VfM it is likely that assessments will focus only on price.)	Batch 1 and 2 questionnaires should be viewed as a starting point for understanding some aspects of value on a national, regional and local basis e.g. batch 2 gathers data on price, costs, quality, strategic relevance



			costs, quality, strategic relevance and demand. This is not however a fully integrated or comprehensive approach.
Inclusive	VfM assessments should involve the service provider in both the verification and the interpretation of information.	AAs should consider how to give service providers the opportunity to verify financial and PI data concerning their services e.g. by sharing any calculations. Meetings with providers at which initial VfM conclusions are discussed and, if necessary, revised in the light of the provider's input.	The completion of Batch 2 requires input from the provider as well as the ALA. SP teams should provide information and reassurance regarding the exercise e.g. through briefing sessions/communications, at SP Provider Forums. Providers who will be assisting with Batch 2 responses should be notified as soon as possible to ensure the most appropriate members of staff are available to assist.
Transparent	VfM judgements should be transparent i.e. both the method of assessment and reasons for conclusions must be clearly understandable by relevant interested parties.	Publication by AAs of the means by which they will conduct their VfM assessments as an appendix to their Service Review Procedures. The published statement should explain <ul style="list-style-type: none"> • What sources of information will be used; • How service providers will be able to check that data concerning their own services is accurate and up-to-date; • How the various information (financial and qualitative) will be combined in order to form a VfM assessment and what weightings (if any) will be applied to the different sources. Procedures could be explained at suitable events such as inclusive forums.	The principle of transparency should be extended to work being undertaken for the SR04 using the methods suggested above.
Comprehensive	AAs should aim to ensure that VfM judgements take account of all reasonably relevant	Mechanisms that combine both qualitative and quantitative data in a reasonably objective manner should be favoured over those that make use only of quantitative data. Particular	Although the time frame for completing Batch 1 and Batch 2 questionnaires is challenging, the



	information.	attention must be paid to suitable benchmarks and benchmarking. AAs may consider doing this by means of scoring systems that enable qualitative information to be analysed in an objective and consistent way. The Quality Assessment Framework is an example of such an approach.	guidance and suggestions provided within this practice aid should be used to ensure assessment is as comprehensive as possible within the limited time frame.
Evidence based	VfM assessments should be based only on tangible evidence that has been made available and makes sense to the service provider.	Data that is used in VfM assessments should be drawn from verifiable documented sources e.g. notes of meetings with service users, written feedback from stakeholders, references to specific strategic documents, providers accounts, formally gathered information on costs and performance measures used for benchmarking etc.	An evidence based approach to completing Batch 1 and Batch 2 questionnaires, whilst recognising that further evidence may be required in the future, to provide and enhance local understanding of the questions posed. A pragmatic approach should be taken to gathering as much evidence as possible to provide an informed response.
Proactive	AAs and service providers should take a proactive approach to undertaking and acting on VfM assessments.	Whilst Service reviews are the main driver for securing Value for Money, AAs should act on potential opportunities for improvement which may arise outside the ongoing programme e.g. identifying what appear to be very high comparative unit costs, or responding to providers suggestions for improving access routes into services by users who need them most. Providers' internal management mechanisms should proactively aim to manage costs and maximise value on an ongoing and continuous basis.	AAs and Providers should ensure that appropriate time and resources are available to meet the requirements for the SR04 using this practice aid to deal with any key challenges.