**Assessing Value for Money: FCO projects**

The National Audit Office uses three criteria to assess value for money in government spending:

* **Economy**: Spending less;
* **Efficiency**: Getting the best product for the best price;
* **Effectiveness**: Achieving our objectives.

We should consider these criteria throughout the project cycle. It is particularly important to assess projects against these criteria at the appraisal stage.

The diversity of the operating environments we work in means that value for money will look very different from post to post. The degree to which we challenge VFM will depend on the scale of the project. This guidance sets out some of the questions to ask when considering value for money.

**Economy**

This is about satisfying ourselves that costs have been reduced as far as possible. Questions to ask include:

* Is the activity based budget detailed enough to allow robust challenge of individual costs? (see attached examples of activity based budgets);
* Does the project make the most of assets available to the FCO for little or no cost? (eg using Residences for events rather than hiring premises);
* Are individual costs competitive in the local market?
* How do costs compare to previous projects or what we pay other providers? Can we obtain data points from other Embassies
* Are day/hourly rates for project staff reasonable?
* Are we using the most economical travel and accommodation options? (we should not fund a higher class of travel or standard of accommodation than we would provide for FCO staff);
* Have administration costs been kept to a minimum (maximum 10% of budget)?
* Have we eliminated any contingency costs from the budget?

**Efficiency**

This is about getting the best value out of the resources we spend. Questions to ask include:

* Thinking about the deliverables that will remain after the project, does the overall cost seem reasonable? Could we justify it to ministers or tax payers?
* Are all the activities or costs necessary? (Have we excluded all the “nice to have” elements?)
* Has the project been identified via a competitive process in line with procurement rules?
* Have we conducted appropriate due diligence on the project implementer? Do they have the capacity to deliver?
* Could we deliver the same outputs at a lower cost?
* Does the implementer have robust procurement processes in place for any subcontracting?

**Effectiveness**

This is about achieving objectives. At the project appraisal stage it is about whether the intended benefit represents value for money.

* What real world change is the project designed to achieve? Does the potential gain justify the price tag?
* Is there a convincing case that the project will help us achieve business plan objectives?
* Is the project designed in such a way as to maximise side benefits (eg UK economic benefit)?
* What are the opportunity costs? What would funding this project mean we cannot do?
* Is there a credible exit strategy? Can we be satisfied that project benefits will be sustained in the long term?

**Activity based budgets**

The diagrams below show excerpts from activity based budgets for an example project. The first shows the level of detail needed to adequately challenge a project budget. The second is an example of how not to do it!

**Good ☺**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Activity | Component | Unit | Number of units | Cost per unit | March | April | May |
| 1.1 Visit to UK by 8 scientists | Flights post-London | Return flight, economy class | 8 | 320 | 2560 |  |  |
| Hotels | Night in marker hotel B&B | 8 | 110 | 880 |  |  |
| Meals | Lunch and dinner per day | 16 | 30 | 480 |  |  |
| 1.2 Development of policy recommendations | Scientists’ fees | Day | 20 | 100 |  | 2000 |  |
| Printing | Copy of recommendations | 35 | 5 |  | 175 |  |
| 1.3 Briefing for Finance Ministry on visit and policy recommendations | Venue (Residence) | Daily use | 1 | 0 |  |  | 0 |
| Trainers’ fee | Daily rate | 3 | 150 |  |  | 450 |
| Sandwich lunch | Per person | 15 | 5 |  |  | 75 |
| TOTAL | | | | | 3920 | 2175 | 525 |

|  |  |
| --- | --- |
| ☺ Costs linked numerically to activities in the project proposal  ☺ Activity costs broken down into constituent parts  ☺ Costs minimised by hosting event at residence | ☺ Unit costs identified, as well as number of units, to show exactly what we are getting for our money |

**Bad ☹**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Activity | Total | March | April | May |
| Flights | 2560 | 2560 |  |  |
| Accommodation and meals | 1435 | 1360 | 75 |  |
| People costs | 2450 | 2000 |  | 450 |
| Printing | 175 |  | 175 |  |
| Admin charge | 1000 | 333 | 333 | 334 |
| Contingency (5%) | 380 | 200 | 90 | 90 |
| TOTAL | | 6453 | 673 | 874 |

|  |  |
| --- | --- |
| ☹ Costs not linked directly to activities  ☹ Unclear how many units (eg flights) are included and how much we are paying for each | ☹ Admin charge exceeds 10% threshold  ☹ Budget includes a contingency |