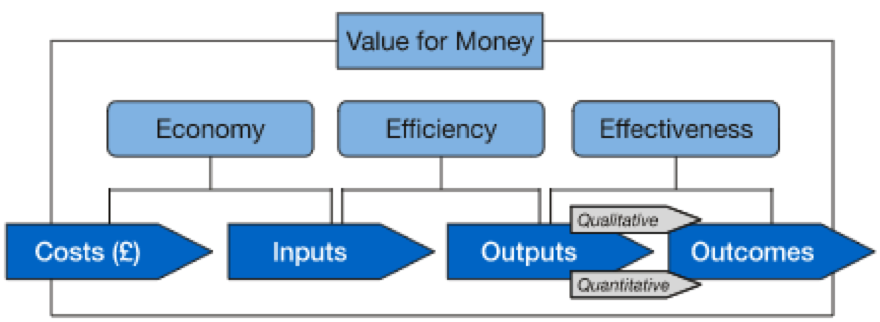
<u>Value for Money of Grants & Contribution Agreements</u>

The purpose of this tool is to assist in determining Value for Money as it pertains to agreements for Grants and Contributions. Value for money is not a single, numeric calculation. There is no magic formula.

- Value for Money is about obtaining maximum benefit with the resources available.
- Value for Money is about balance.
- Value for Money is about the cost of goods and services when taking in to account the quality, intended resource use, fitness for purpose and timeliness.

Value for money is based not only on purchasing at the best price – it is also based on the maximum efficiency and effectiveness of the purchase.

In assessing grant and contribution agreements, value for money is achieved when: *financial, human and physical resources are managed with due regard to economy, efficiency and effectiveness.*



The process of assessing and measuring Value for Money is a challenge and it is a process that should be **ongoing throughout the life of any agreement**.

The process starts with analysis. The diagram above illustrates the basics and it is the analysis of the economy, efficiency and effectiveness that will lead to a determination of the overall Value for Money of the agreement.

Economy

Economy is the actual dollars that have been spent for the physical, financial, human and information resources invested in the project. These are the inputs that make up the outputs and the outputs determine the outcomes.

For example:

- The *outputs* of an agreement may be the total number of clients served; the *outcomes* are the impact or results achieved.
- *Outputs* could be the number of clients served and *outcomes* the number of clients that found employment in a given period of time.

Economy can be described as:

- The right amount
  - At the right place
    - At the right time
      - Of the right kind
        - At the right cost.

Each of these quantifiers can be asked as a question:
- Is it the right amount…of resources to use on an agreement of the particular kind?
- Is the agreement being proposed in the right location?
- Is this the right time for this type of agreement?
- Are the resources requested the right kind to achieve the goals of the agreement?
- Are the resources being requested at the right cost for the particular resource?

Use of "right" implies that there are standards and/or guidelines available. Program Policy and Guidelines provide standards. The inclusion only of those costs which are eligible for the particular type of agreement is following a standard. The use of a bid process for items over a certain value is a standard.

Outside of the workplace we consciously or unconsciously assess value all the time as we make personal choices in purchasing material things or perhaps deciding on a vacation destination. To do this we look at the available options. The relative merits of one choice over another. Analysis often includes extensive use of the internet and the internet is a valuable tool in the analysis phase of determining Value for Money.

Through the internet we have access to current Labour Market Information pertinent to the geographic area of the project. Internet access to commercial web sites provides information to determine product or service availability and cost comparisons. The Internet is a valuable tool. The experience and information gained over time is also of great importance in determining Value for Money.

Economy is minimizing the cost of resources used for an activity having regard to the appropriate quality and quantity.
Economy should be considered for each particular cost category as well as the whole of the agreement.

Efficiency

Efficiency is a measure of productivity, the relationship of inputs and outputs relative to the use of resources. Examples would be:

- the teacher-pupil ratio in a classroom
- machine-hours to output ratio in a factory
- the ratio of staff hours to participant hours in a project

An increase in output without a corresponding increase in input **or** getting the same output as before but with a reduced input of resources indicates an increase in efficiency.

<u>Measuring efficiency presumes the existence of acceptable standards/criteria.</u>

- Program Guidelines are standards.
- The staff to client ratio of successful programs observed over time can be a standard.
- Past experience with the particular applicant can be a standard or guideline.
- Key performance indicators are standards.

Effectiveness

Effectiveness is a measure of the impact that has been achieved. It is an ends oriented concept that measures the degree to which predetermined goals and objectives are achieved. The attainment of the right results from the usage of the resources and organizational operations of the agreement. Goal achievement is probably the most common meaning attached to effectiveness. Goals must be well defined at the beginning of the project. It must be clear what goals are being measured.
Effectiveness can be considered in three terms: Project, operational and organizational effectiveness.

Project effectiveness relates to the continuing relevance of a project and the attainment of its intended objectives, its impact and its cost-effectiveness.

Operational effectiveness relates to the achievement of output targets, to the delivery systems and the cost-effectiveness of these systems.

Organizational effectiveness relates to the overall capability of the organization and the interactions among planning, management structures and processes and human and financial resources – all in relation to the goals of the organization.

<u>Process</u>

The process of assessing Value for Money begins with the receipt of the application from the proponent and continues throughout the life of the project.

The initial step is to determine that the activities and the expected results proposed are a good fit for the labour market requirements of the geographic area in which they will take place. **Are they the right kind at the right place at the right time**?

The assessment continues with an analysis to determine the eligibility of each cost in order to ensure that the particular cost is necessary to achieve the goals of the project and that it represents good value for money. Consider if each expense item being requested **in the right amount and at the right cost?**

During negotiations consider that value = money well spent.

Question planned activities such as conference attendance of the project staff.

- How closely does the conference content relate to the activities of the project?
- Is it essential to the success of the project – or a nice to do?
- How much of the staff time will be taken away from the main activities of the project? Will benefits outweigh the cost both in dollars and in time?

Determine the <u>Fair Market Value</u> of any applicant owned assets to be used in the project. Question the necessity and suitability of the asset for the project.

- Is the building the right size, in the right location?
- Does the project require all of the offered furniture and is it suitable for the required tasks?
- What is the age and condition of any equipment such as photocopiers and computers? How will this affect the cost of maintenance?

Fair Market Value must be determined for every category, not just for applicant owned resources, in order to determine that the project represents good Value for Money.

Consider if there are viable alternatives to travel.

- Would conference calls be effective instead of travel to on-site meetings?

Wages are usually based on NOC codes.

- Does the NOC code used accurately match the job description of the position and does that description match the actual duties of the position?
- During on-site monitors observe if the stated duties are the actual duties carried out by the employee.
- Is vacation leave or vacation pay reflective of industry standards?

When the agreement being assessed is with an incumbent, how well did the project just ending provide value for the money spent?

All of the categories for expenses and activities should be assessed. Each agreement is individual and will present different opportunities and challenges to achieve value for money.

When negotiations are complete and the overall project represents good value for money there will be a relationship between the actual dollars to be spent and the activities to take place in order to achieve the goals. As the project proceeds and is monitored this relationship between expenditures and activities should remain relatively constant, taking in to account any one off up front costs or unusual, planned one time costs during the life of the agreement. When wide variations appear during the life of the project costs and activities should be reviewed to determine the cause.

Assessing Value for Money can be challenging but it is an important part of ensuring that the programs and projects for which HRSDC is responsible are well managed.