

The Accenture Public Sector Value Model

INDEX

1.1	Overview of Accenture's PSV Model	3
1.2	Outcomes	4
1.2.1	<i>Outcomes Defined</i>	4
1.2.2	<i>Identifying Outcomes</i>	4
1.2.3	<i>Measuring Outcomes</i>	5
1.2.4	<i>Applying a common denominator to the basket of outcomes</i>	6
1.2.5	<i>Weighting the Outcomes – Citizen Preferences</i>	6
1.3	Cost-Effectiveness	7
1.3.2	<i>How do we calculate Cost-Effectiveness?</i>	8
1.3.3	<i>How do we calculate the Capital Charge?</i>	8
1.3.4	<i>Do we need to make other adjustments?</i>	8
1.4	A Matrix of Value Creation	9
1.4.1	<i>Using the matrix</i>	10
1.1		



¹ Value Added Tax – added to the price of good and services sold in the UK and collected from the companies selling these

1.1 Overview of Accenture's PSV Model

In the private sector, value is generally defined as the total return to shareholders. The Shareholder value methodology states that value is created as a combination of growth and spread, measured as Return on Invested Capital minus the Weighted average cost of capital. Although this definition is not applicable directly to the public sector, it is possible to learn some of the lessons of the SVA and apply them to the government sector. Public Sector Value is the result of this application.

The Accenture Public Sector Value Model² (PSV) is built upon the two primary “levers” of public value – outcomes and cost effectiveness. The model assumes that public sector value is created through generating improved outcomes in a more cost-effective manner.

Outcomes are a weighted basket of social achievements. They are based on an agency's reason for being as well as on citizen's expectations of that agency. They are less focussed on the results of a process, and more orientated towards whether an organization achieves its goals.

Cost-effectiveness assesses what financial costs were borne by the agency, and ultimately the citizens, in order for that agency to achieve its level of outcomes. Cost effectiveness is defined as the measurement of outcomes divided by a measurement of cost .

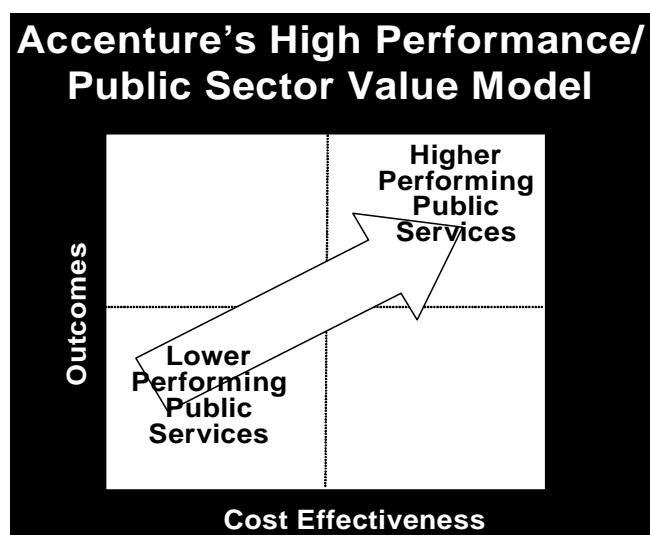


Figure 2 - Accenture PSV Model

Accenture's public sector value model looks at both outcomes and cost effectiveness. By increasing one or the other, governments can be understood to be creating value. An agency creates unambiguous value for its citizens when both outcomes and cost effectiveness increase at the same time. By increasing one at the expense of another, governments can be understood to be making a trade-off between their two fundamental means of creating value. A decrease in both levers represents a clear reduction in public value.

Accenture's Public Sector Value Model provides a baseline for comparing performance of a particular government agency over time and/or compared to other agencies. Agencies can isolate individual outcomes and determine which factors are the most meaningful for driving overall value. The Accenture Public Sector Value Model looks at relative change. It cannot indicate whether

² Accenture has applied for United States and Worldwide Patents on the concepts and methods contained in the Accenture Public Sector Value model

an agency is performing well or badly, but it can show whether an agency is doing better or worse than the year before, or than other agencies. It can also indicate which actions were taken to cause those improvements and help pinpoint problems.

1.2 Outcomes

1.2.1 Outcomes Defined

Outcomes are based on an agency's reason for being as well as on citizen's expectations of that agency. Public services should be of value to the public, or at least to specific members of the public at whom they are targeted. It is both appropriate and helpful to focus on 'the citizen' as the primary recipient of public sector value creation.

Much of the focus of Government thinking over the last 5-10 years has been to reinvent public services as Customer-focused delivery organisations. This is by no means a view which is incompatible with a public value approach; however, to understand the value being generated by an organisation it is necessary to look wider than merely the service provided to Users or Customers. Customers of a service are not necessarily the only beneficiaries of a service; for example, welfare payments can be understood to generate a benefit for many citizens beyond those who actually collect benefits (e.g. in crime reducing effects). Our approach looks at any public service as something that is of value to all citizens as singular beneficiaries. We understand the value a service produces as the value generated both directly for users as well as indirectly for non-users who nevertheless benefit from the operation of the service.

1.2.2 Identifying Outcomes

Our view is that the accurate identification of Outcomes is fundamental to understanding the value delivered by any public service. Outcomes are based on an agency's reason for being as well as on citizen's expectations of that agency. They are less focussed on the results of a process, and more orientated towards whether an organization achieves its goals. To identify an agency's outcomes, the value that the agency delivers needs to be considered from two perspectives.

Firstly, what is the purpose of the agency? Why was the agency created in the first place? A simple way of ensuring that you have the right purpose an agency is to consider what the consequences would be for society should the agency cease to operate. Take Social Welfare as an example, without Social Welfare people who were unable to support themselves would be living in extreme poverty. An outcome therefore is to minimize poverty.

Secondly, we need to consider the citizens' expectations of the agency. Taking again the case of an agency within the social security system, citizens don't want to waste their time dealing with the agency for unnecessary reasons or waiting in long queues. Two additional outcomes could be then minimise burden and maximise responsiveness to citizens.

This double approach doesn't imply that the agency has its own outcomes that compete with those of the citizens. Take a revenue agency for example. In the identification process we might conclude that the agency wants to maximise tax collection (within a given tax code) and maximise compliance, while citizens want to minimise the burden of dealing with the agency and be dealt

with efficiency when they have problems (maximise responsiveness). In reality, all four outcomes are desirable from the point of view of the citizen.

Outcomes vs. Outputs

It is very important to distinguish between outcomes and outputs. Outcomes are the end result of an organization's operation e.g. revenue agency: maximising the collection of tax. Outcomes may be portrayed in the mission statement of an agency. Outputs are the end results of organizational processes e.g. revenue agency: number of tax returns processed. By focusing on the Outcomes of an organisation we measure the end experience of the citizen rather than organisational activity. An organisation may have many staff, very strong processes and even deliver strong outputs but if these are misaligned and not producing an outcome that is desirable, then it will not be delivering value to the citizens it is serving. Our experience is that 4-8 outcomes will usually cover the vast majority of an organisation's effect, with further outcomes becoming more numerous as well as far less important.

Figure 3 shows an illustrative outcome model for an immigration agency .

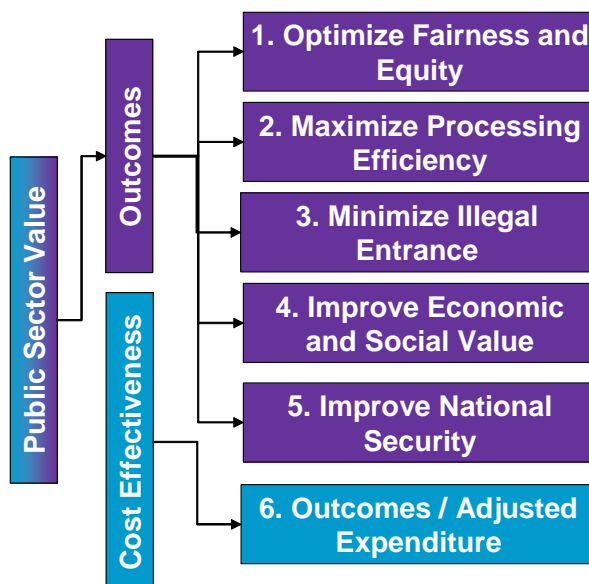


Figure 3. Baskets of Outcomes Immigration

1.2.3 Measuring Outcomes

Measurement of the outcomes of an organisation can, in some cases, be relatively straightforward, whilst in others more difficult. Some outcomes will readily lend themselves to measurement. A number of issues surround outcome measurement, as is the case with any measurement regime. Common factors such as data availability, reliability and comparability are paralleled by the need to acknowledge and account for exogenous factors; this is particularly true where social outcomes are at the heart of the analysis. Our approach is to measure outcomes as feasibly as possible, reflecting the fact that measurement improvements might always be possible. In some cases this may involve the measurement of outputs or processes as proxy measures of outcomes whilst in other cases measurement may not be possible at all and a qualitative assessment may need to be made.

1.2.4 *Applying a common denominator to the basket of outcomes*

Beyond identifying and measuring outcomes, the challenge is being able to turn performance measures relating to outcomes into measures that have a common denominator – preferably, given PSV’s focus on the citizen perspective, a general population-based denominator. Some measures will relatively easily translate to this format whilst the format for translating others can be more obscure. Health outcomes, for example, can be clearly related to the citizen and valued in proportion to the value which the citizen places on any particular aspect of good health. However, other outcomes are more difficult to relate to citizens directly. For example, education outcomes benefit both the individual being educated and society more generally through increased productivity and economic activity. They may also be seen to be reducing crime and anti-social behaviour – also of benefit to citizens. Measuring the impact of some of these aspects of educational institutions is clearly difficult – but measures can normally be found or approximated. It can then be equally challenging to convert such measures into a format which is meaningful to an individual citizen. However, despite the challenges associated with this approach we have found the task a plausible one when working with clients to understand value creation. For example, PSV analysis undertaken within policing profited greatly from current research on the impact of anti-social behaviour.

1.2.5 *Weighting the Outcomes – Citizen Preferences*

All outcomes are rarely of equal importance to the citizen and the importance of any given list of outcomes is likely to change over time. In Accenture’s PSV model percentage weights are applied to each outcome to reflect the relative importance assigned to that outcome by the agency in terms of value creation (e.g. maximising compliance might be seen as more important than generating customer satisfaction at Revenue Agencies). These weights are not rigid; the organization can alter weights in the future to reflect changing priorities, industry trends, etc.

Figure 4 shows the outcome model for a revenue agency. This model was created by Accenture and presented to the Indiana department of revenue for revision and comments. Weightings were decided by Accenture and the client based on industry expertise and the political environment. The same model is being used with different clients around the world with adjustments made only in the weightings:

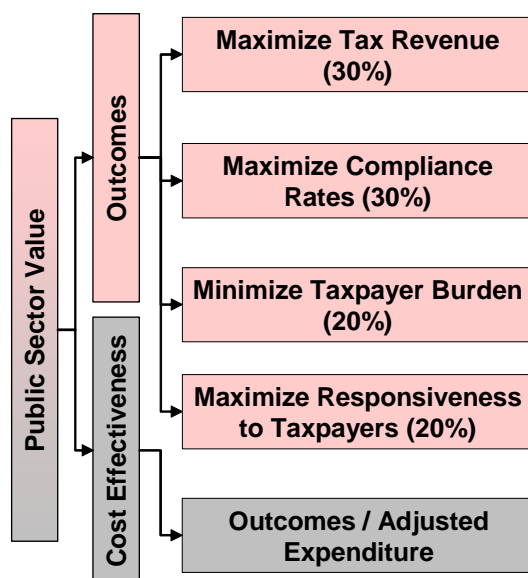


Figure 4. Weighted Outcomes - Revenue

A thorough approach to weighting and outcome determination is a central premise for PSV analyses. Ultimately, any such data will need to be refracted through the judgment of senior executives and politicians – though focusing their attention on the ideal citizen – to get a set of weights that will be useful to any public-service organisation or sector. It is also important to conduct sensitivity analyses on any provisional weighted basket to understand the behaviour of the overall outcomes score when component values change – especially where these components relate to intangible or hard-to-measure outcomes. This is a major constituent of our ‘validity testing’ of our model application.

1.3 Cost-Effectiveness

1.3.1 Cost Effectiveness Defined

So far, this paper has outlined how we plan to use and assess Outcomes. However, we also believe that it is vital to include an assessment of the Cost-Effectiveness of an organisation in any evaluation of the value which it is delivering. Citizens are often taxpayers and therefore have a vested interest in the efficient operation of their services. Even where a citizen is paying no tax, money spent on a public service is money which could be spent elsewhere, potentially delivering other valuable outcomes. The opportunity cost of resourcing a public service is therefore an important driver of value.

Our approach is to look at the resourcing an organisation requires to deliver a particular set of outcomes. If this resourcing can be reduced without any change in an organisation’s Outcomes then this represents an improvement in the value delivered to the public.

Within the private sector the Return on Capital Employed (ROCE) is the return the investor has received, as a percentage of their initial investment. This measures how well an organisation uses assets to generate profit. In the public sector, the return is the generation of Outcomes. However, we are not only trying to measure how well a public sector organisation has used assets to generate profit. Outcomes represent the gross product of activity. Public sector organisations spend their

budgets in operating expenses to run the agency as well as in capital expenditures, which add to the asset base of the agency.

1.3.2 How do we calculate Cost-Effectiveness?

Cost Effectiveness is therefore calculated as a ratio of the Outcomes generated as a proportion of the total resources consumed, operating expenses and capital invested, in producing these Outcomes. This is a conceptually similar but mathematically different ratio to ROCE, but one which measures the effectiveness with which a public sector organisation uses the resources available. Cost Effectiveness is calculated as:

$$\text{Cost Effectiveness} = \frac{\text{Outcomes}}{\text{Total Resourcing}}$$

Figure 5. Cost Effectiveness formula

Total Resourcing equals to operating expenses plus the opportunity cost of the invested capital in the business, the capital charge. The organisation needs to justify not only its operating expenses, but also the capital invested in assets, which could be used either elsewhere within the public sector or to reduce public borrowing. In order to reflect this opportunity cost, capital invested is multiplied by the cost of debt to produce a notional cost; the Capital Charge (see below). Therefore, in order to represent the funds consumed by a public sector organisation, both Operating Expenses and the Capital Charge must be included.

1.3.3 How do we calculate the Capital Charge?

The Weighted Average Cost of Capital (WACC) is the standard methodology for considering the cost of holding assets within the private sector. Shareholders and Debt Holders expect a certain level of return on their investment. Their expectations are largely driven by the perceived risk of the company in which they are investing. This is because investors must be given an incentive to invest in more risky operations through the prospect of greater returns than those available from less risky investments.

Within a given government, for example the UK, the cost of debt in the public sector is consistent across government bodies as this is borne centrally by HM Treasury. We would therefore propose using the prevailing 10-year government bond rate as the basis for calculating the Capital Charge. Multiplying the invested capital in the agency, as measured by subtracting the current liabilities from the total assets of the organisation, by this rate will provide an estimate of the cost of capital employed within the public sector.

1.3.4 Do we need to make other adjustments?

Given the nature of the information contained within the financial statements of government bodies we need to consider whether adjustments should be made to these figures in order to provide a realistic assessment of Cost Effectiveness. Specific areas where adjustments might be required to

determine the “fairest” level of resources consumed by a government body include pensions (UK public sector pensions are often unfunded – an adjustment is required to reflect the actuarial pension liability of employing current employees in the current year) and any off balance sheet items, in particular Private Finance Initiatives (where there are assets that are not recorded on the Balance Sheet of an organisation, but which are used exclusively for the delivery of public services, the cost of the capital invested on these assets should be included). We also need to make sure that capital expenditures are not included in the operating expenses, as this would distort the analysis.

1.4 A Matrix of Value Creation

The PSV Matrix of Value Creation illustrates how the agency scores in different years in terms of delivering outcomes and cost effectiveness. The matrix introduces the concept of the average year. Every year is plotted in both axes as the deviation of the outcome and cost effectiveness score from the average performance in both axes for the period of analysis. The graphical plots show relative scores, rather than absolute, therefore the scores can be used:

- To benchmark
- To rank and prioritise
- To identify patterns and trends
- To compare against average performance over time and against other organizations

It is important that the matrix is not portrayed or treated as a graph whereby the X and Y axes are quantities that follow a mathematical relationship. The matrix demonstrates two measurements of performance alongside each other, not an arithmetic equation.

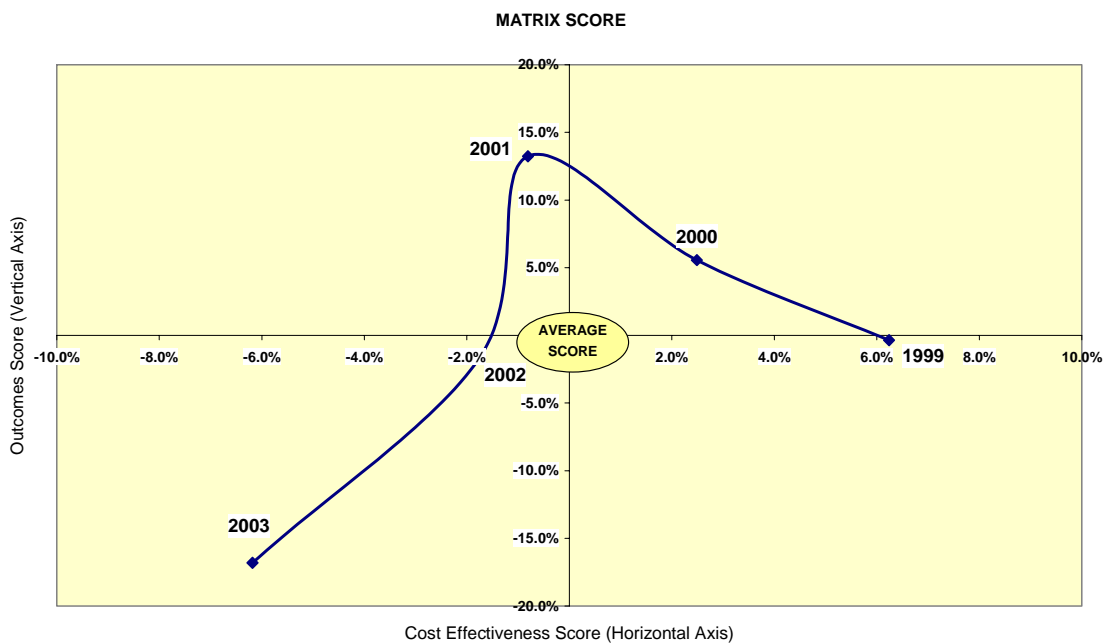


Figure 6. PSV Value Matrix

The matrix shown in Figure 6 corresponds to what we call a single-agency multi-year PSV analysis. The outcomes and Cost Effectiveness score are calculated as deviation from the average performance of the agency for the period of the analysis. It is also possible to compare several organizations in a single year, or even several organizations across time. However this is often easier said than done, as in most cases data is not comparable, thus resulting in an accurate PSV.

1.4.1 Using the matrix

In analysing the PSV matrix an organization’s value profile can be determined. It cannot indicate whether an agency is performing well or badly, but it can show whether an agency is doing better or worse than the year before. It can also indicate which actions were taken to cause those improvements and help pinpoint problems. Other kinds of traditional performance measure are still required to determine whether the organisation is being well run. It is the holistic picture of value that is most appealing.

The value creation path of an agency can be easily described with the use of a compass (see Figure 7). Overall, it can be said that moving North represents value creation in terms of Outcomes whereas moving East means the same in Cost Effectiveness terms. Conversely, a South trend indicates value destruction in terms of Outcomes and a West trend does the same for Cost Effectiveness. A combination of different North-South and East-West directions will help us to identify whether the agency is creating or destroying value, or whether the value creation path is ambiguous.

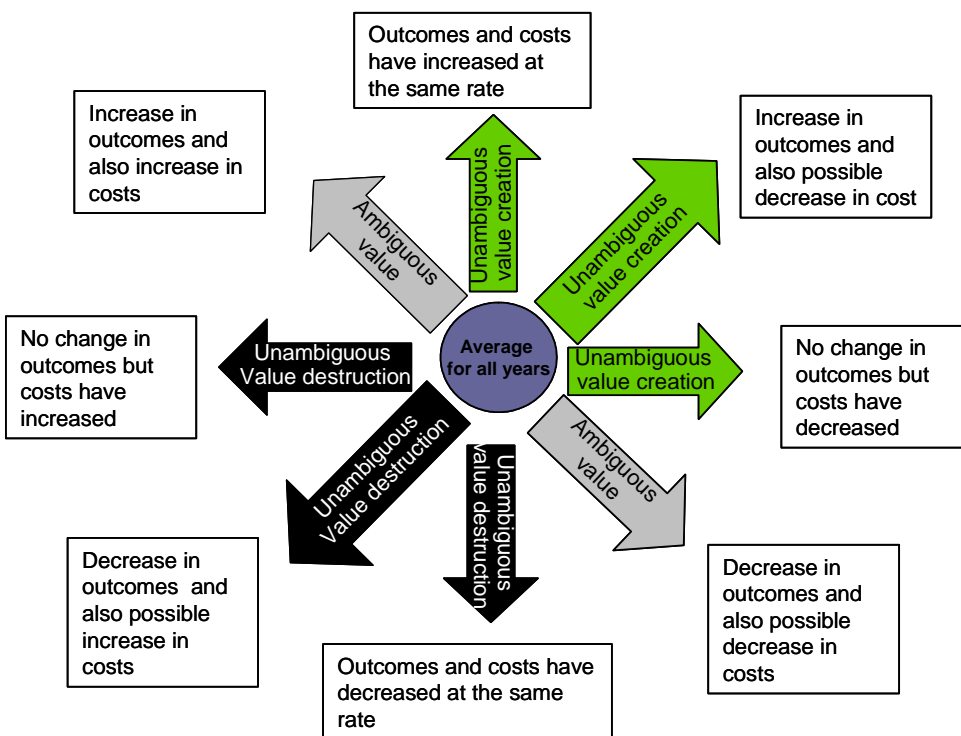


Figure 7. PSV Compass to identify Value Creation Path

After the analysis has been completed, politicians or public managers can use the Public Sector Value Model as a tool for determining priorities for performance improvement. They can refer to this framework as they attempt to identify their current position and assess which strategic and operational decisions need to be made to generate value in the direction they wish to take.

The PSV methodology also allows for comparison between similar agencies, for example revenue agencies or police force, in a single year or across time. In that case, the four quadrants of the

matrix acquire a new meaning. An organisation can be classified as a 'Sleeping Giant' a 'Quality Driver' a 'Budget Driver' or a 'Value Driver' depending on their position relative to the average performance of other agencies. For the analysis of the individual value creation paths for each of the agencies we can use the compass described above. Figure 8 describes the four quadrants:

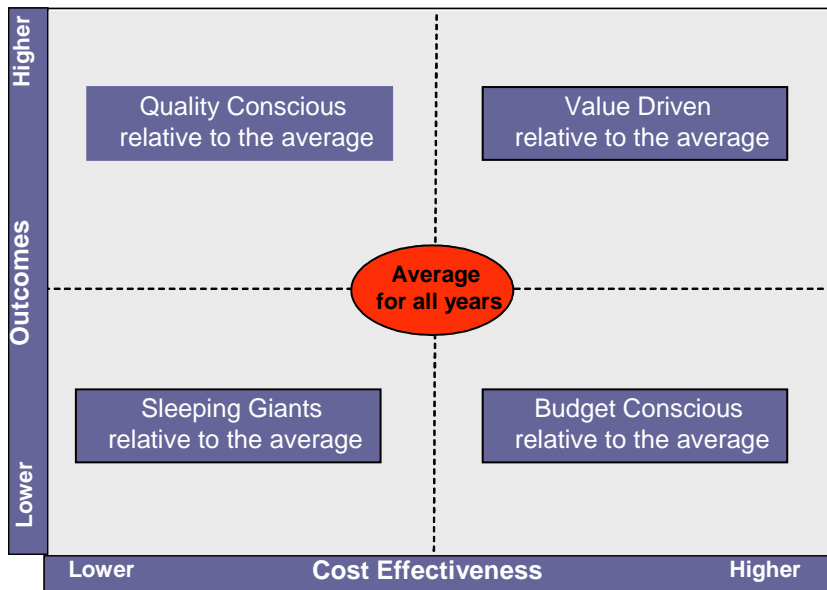


Figure 8 - Performance Relative to the average for all agencies