Value for money in regulation

This Regulators' Forum meeting was concerned with questions of 'value for money'. In an age, where regulators have to justify their activities and, in some cases, their overall existence, there have been increased calls for highlighting the 'value for money' of regulation. While 'value for money' is a well-established term, it raises particularly tricky issues for regulation, whether in terms of methodology, information, or attribution.

Numerous questions and challenges are involved when assessing the 'value for money' of regulation. The Roundtable considered some of the key questions and experiences with attempts at establishing what constitutes value for money. 'Value for money' is defined as the optimal use of resources to achieve intended outcomes, assessed in the contexts of the 3Es, namely economy, efficiency and effectiveness.

Some of the challenges involve gaining an understanding of the inputs, outputs and outcomes of regulatory activities, especially the relationship between these three factors. Regulators are usually seen to be good at pointing to inputs and outputs, but the relationship between these three factors is critical as 'value for money' is about the marginal effect of regulatory spend on intended outcomes. Such calculations are made more complex by the need to account for indirect costs of regulation. One of the key factors explaining efficiency might refer to economies of scale in the running of particular regulatory activities. It was also highlighted that specialisation was important in offering a responsive and effective regulatory regime.

A further challenge involves the methodology of gathering information. Here a variety of methods exists, depending on degrees of information and certainty. These methods vary from the use of cost-benefit analysis, to benchmarking exercises, to assessments in the light of 'operational good practices'. These variations partly reflected degrees to which certain activities or outcomes could be monetised and interest in the costs of rule-making. Related, one of the key problems was seen in gathering robust and reliable information. Such information generation, collection and analysis were, at times, likely to be disproportionately costly for regulators and regulated. In some areas there were no existing indicators for assessing regulatory 'frontline' work. As a consequence, assessments remained largely on the qualitative side and had to partly deal with the (counterfactual) question as to what might have happened without regulatory intervention. It was also problematic to identify a 'base line' to compare performances and to assess enforcement activities where the ultimate purpose might reflect different values (such as justice or deterrence). Despite these problems, there was a concern to develop stronger indicators. Others noted that the introduction of indicators was likely to trigger resistance.

To understand satisfaction levels regulators relied on feedback processes from different 'customer' groups. The main vehicles were surveys and other customer feedback mechanisms. However, problems here were identified in terms of contrasting the experience of the 'transaction' with the 'quality' of the outcome. For some, encountering a regulated activity might be highly satisfactory, but the advice given might turn out to be poor. It was important to assess short-term (present) and long-term (in the future) effects. In other cases, it was difficult to assess feedback, as customers were interested in a decision in their favour rather than an assessment of the procedural appropriateness of the decision-making. There were however also other indicators that were being used – and in some cases, the information generated from these different indicators was offering contradictory insights.

A third challenge involves the so-called attribution problem. Outcomes are not always directly related to regulatory interventions (for example, when general funding in a sector was reduced), and regulators have, across activities, varying degrees of influence on regulated entities. This requires, therefore, an appreciation of regulators' so-called spheres of influence, or the degree of a regulator's centrality for impacting on a performance indicator. This issue refers to multiple sources of complexity, namely the multiplicity of regulatory interventions over time and across different regulatory bodies, as well as changing roles of regulators in regulating entities (for example, in terms of moving towards being a provider of improvements). Also discussed were issues about how to measure 'regulatory force' in the light of risk assessments.

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