# Value for Money is more than just procurement

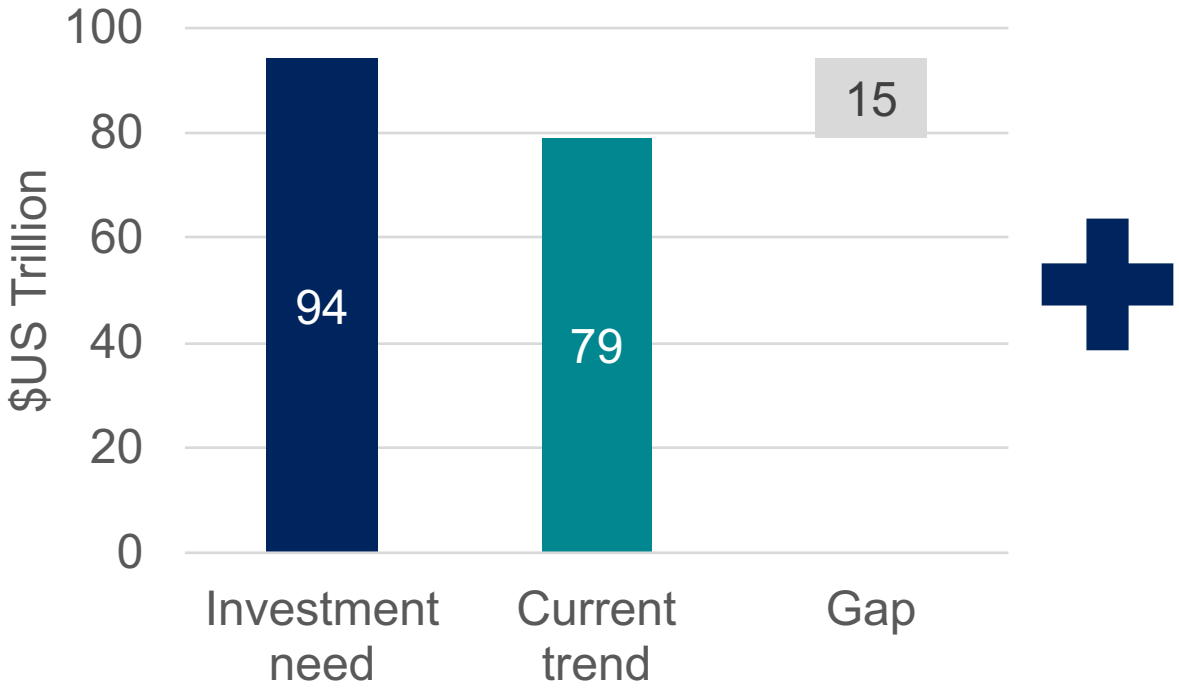
## “Why we are not rich enough to pay for cheap solution of infrastructure projects”

A G20 INITIATIVE

Global Infrastructure Hub

# Large and growing infrastructure needs, lower public capacity to finance and fund that infrastructure

GI Hub forecasts of Global Infrastructure Investment 2016 – 2040 (public and private)




*Source: GI Hub*

Forecast of Czech Republic Government expenditure

| | 2018 | 2020 |
|---|---|---|
| **Expenditure (% of GDP)** | 39.5% | 38.7% |
| **Debt to GDP** | 33.1% | 30.9% |
| **Budget deficit (% of GDP)** | 1.3% | 1.7% |

*Source: Czech Republic Ministry of Finance*

# What is Value for Money?

- Depends on who you ask?

| Central agency head | Line agency head | Project Director/Manager |
|---|---|---|
| Value for Money means… | | |
| This portfolio of projects delivers the most benefits compared with total tax-payer funds | Implementing this solution is the best use of my budget to deliver benefits | This project delivers the most benefits compared to costs; or<br><br>This contractor delivers the best price/quality |

**Value for Money is not just a price question**

# Problem and solution identification critical to ultimate outcome

- Clear identification of **problem** critical driver of value to solution, backed by robust evidence

**Key VfM considerations**

- *Problem or symptom?*
- *Have non-asset solutions been considered?*
- *Do you have sufficient evidence?*
- *Have dis-benefits been considered in solution?*

*"If I had an hour to solve a problem I'd spend 55 minutes thinking about the problem and 5 minutes thinking about solutions."*

*- Albert Einstein*

# Assessing Value for Money begins at project concept stage and continues throughout

Common process to consider Value for Money

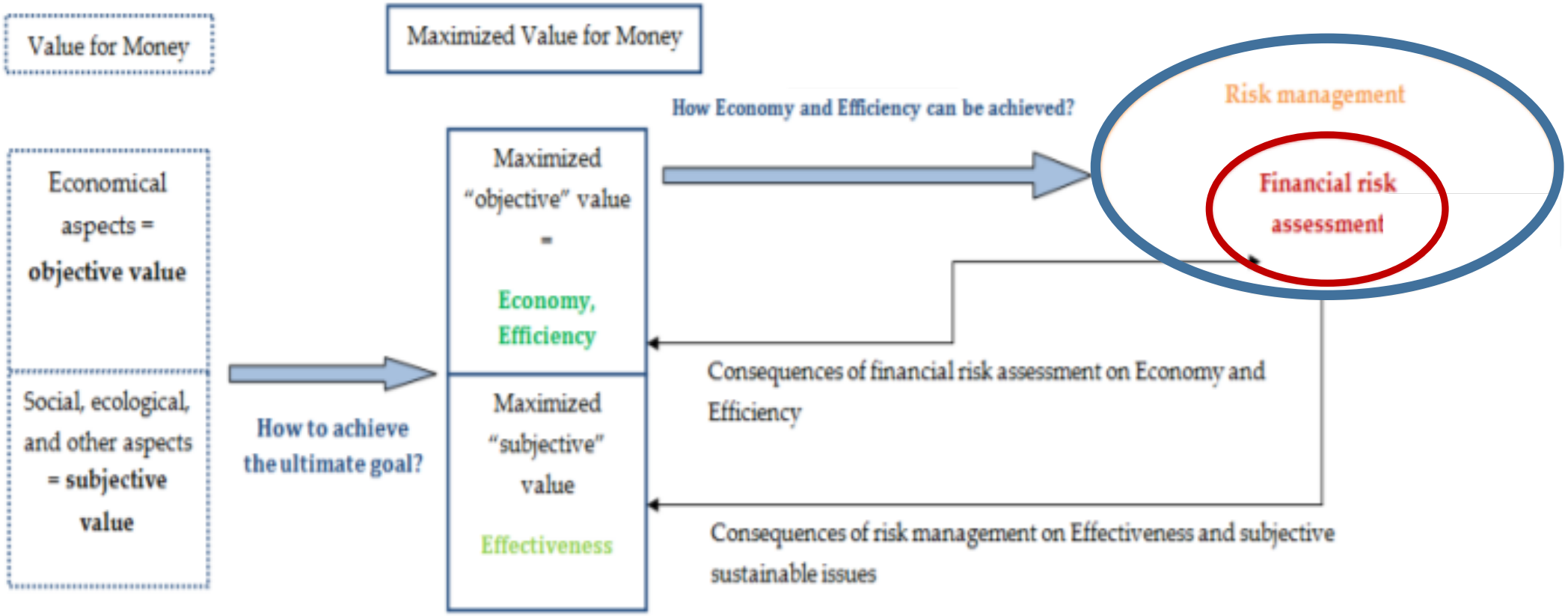
1. **Solution –** What is the problem I would like to fix, and what is the best solution to that problem?

2. **Asset –** What is the best asset to deliver the solution?

3. **Procurement –** Which procurement approach will lead to the best outcome?

4. **Price/Quality –** Which contractor delivers the best price for a level of quality?

# How is Value for Money Determined?



# Economic Evaluation – is Cost Benefit Analysis the only way?

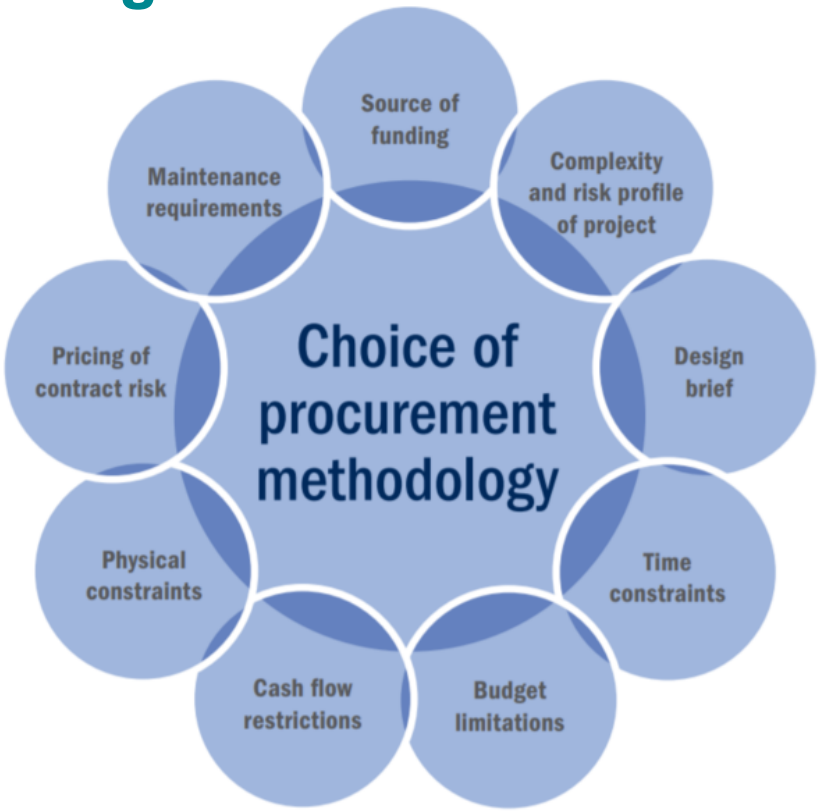
| | Cost Benefit Analysis | Multi-Criteria Analysis | Least-Cost Analysis | Computable General Equilibrium (CGE) modelling | Wider Economic Benefits (WEB) analysis |
|---|---|---|---|---|---|
| Advantage | Comprehensive and 'gold' standard | Fast and low-cost | Simpler cost-benefit analysis | Most comprehensive assessment of economy wide impact | Incorporates market imperfections into analysis |
| Dis-advantage | Costly and time consuming | Subjective | Does not capture benefits | Costly and time consuming | Approach new, not widely accepted |

# Economic evaluation – is Cost Benefit Analysis the only way?

- Techniques complementary – depending on purpose and risk
- CGE and WEB can be combined with CBA to increase analytical comprehensiveness to high-risk/high-value projects
- Multi-Criteria Analysis can be used to conduct initial filter of projects, followed by CBA
- User expertise most important, not technique

# Procurement Method Decision – no typical answer

## Range of considerations




- Determined based on 'best fit' to project characteristics and market context
- Maitland-Whittingham Third Rail Line
  - Alliance model selected to minimise operating disruption while meeting short timeframes
- M7 Motorway
  - PPP model given stand-alone commercial viability and that private sector is faster

Source: Australia Government

# VfM assessment via Public Sector Comparator continues to be relevant & must be done properly

- Public Sector Comparator (PSC) is used to estimate whole of life project cost if delivered by Government
    - Basis for many governments to assess VfM in PPP project procurement
- Effective if done well **BUT** difficult to do well
- Recent debate on relevance, driven by past inappropriate application in making decisions

**Key VfM considerations**

- *What is the value of risks? Particularly shared risks?*
- *Competitive neutrality*
- *Is project cost accurate reflection of actual project scope?*
- *Have departures from RFP been identified and quantified?*

# Why a holistic view of Value for Money is important

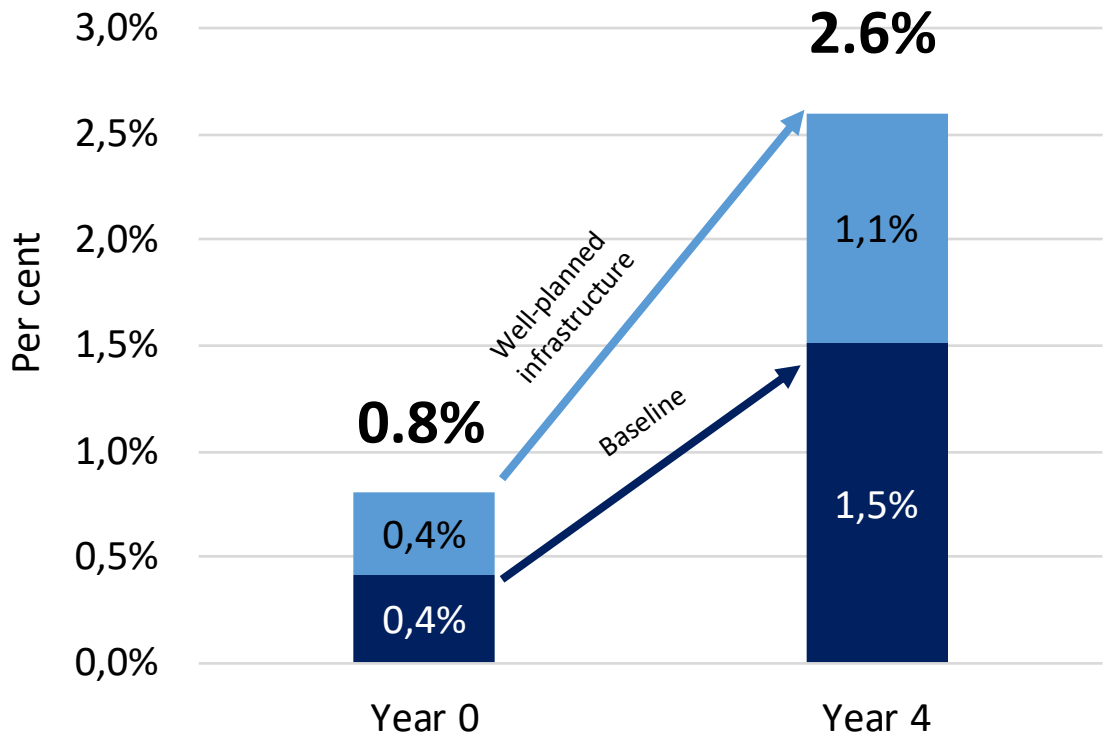
## Ciudad Real Central Airport

- PPP 200kms south of Madrid
- 1.1 billion Euro cost
- 10m passengers p.a capacity
  - Only attracted a few ‘000
- Poorly planned, closed after 3-4 years of operation
- Was in receivership, sold in 2015 for 10,000 Euro

# Economic dividends from well-planned infrastructure

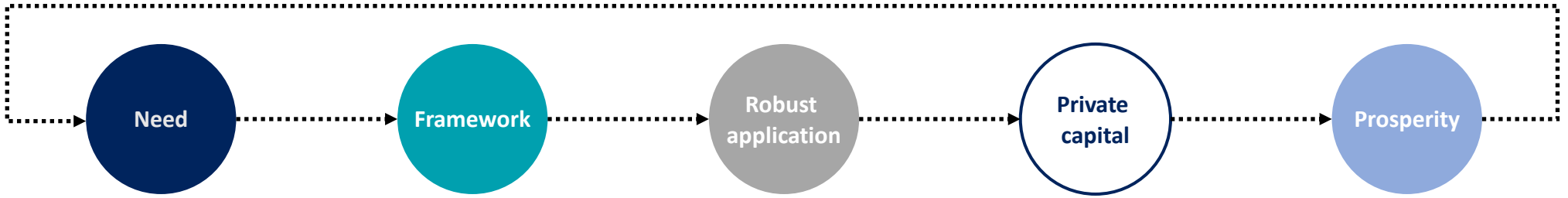
- Robust project assessment is expensive
- Strong economic dividends in doing it well
- 1.1% GDP boost from implementing well-planned infrastructure

**Increase in economic output from investing 1% of GDP in public investment**




Source: International Monetary Fund, GI Hub analysis

# Well-thought out infrastructure provides a cycle of prosperity




- Identify clear need for infrastructure
- Set-up the right environment and framework for delivering infrastructure
- Apply the framework focused on improving 'bankability'
- Attract private capital
- Greater economic activity and more livable cities

GI Hub can help

**Independent** | **Deep market experience** | **Actionable data and knowledge** | **Responsive**

# Děkuji

## Please feel free to contact us with further questions:

+61 407 055 895
Daniel.Fedson@gihub.org



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