



Value for Money & Public Sector Comparator

PPP's Are A Popular Solution



- Public managers throughout the world use these unique relationships to solve public infrastructure and project problems using private sector solutions.
- Popular sectors:
 - *Transportation*
 - *Wastewater Management*
 - *Information Technologies*
 - *Social Infrastructure*
 - *Energy*



Considering a PPP? *Why you should*



- Opportunity to transfer BOTH Cost and Risk to the private sector
- Improve Project Design, Implementation, and/or Administration
 - Latest Innovations
 - Newest Technologies
 - Accelerate Implementation
 - Market-based Efficiencies and Incentives



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Considering a PPP?



- **Question: How do we know if a PPP is the best approach?**
- **Answer: Conduct a Value for Money (VfM) Analysis.**

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Can we define VfM?



- Many variations on the VfM analysis exist – **Not everyone sees it the same.**
- Generally: VfM is the **optimum combination of lifecycle costs and quality and quality of the good or service to meet the user's requirement.**
- VfM is *not* the choice of goods and services based on the lowest-cost bid.
- Why we need VfM:
To evaluate and quantify the benefits and cost savings that can be achieved through the use of a PPP as opposed to public provision alone, as described in a Public Sector Comparator (PSC).

What makes up a proper VfM Analysis?



- Define and evaluate the PSC for the project.
- Decide how the private sector can participate and optimize project delivery.
- Quantify the exchange of risks and benefits



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What is a PSC? *And why does it matter to VFM?*



- The Public Sector Comparator is the Cost associated with the Public Sector provision the project or good in question.
 - It is a benchmark for comparing PPP proposals.
 - Includes the costs of traditional procurement plus all anticipated costs of public-sector ownership.
- **A Realistic Expectation, based on sound data, of what the public sector will pay to do the project on its own**

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***What factors must
public managers
consider?***

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Factors in Evaluating PSC *Discount Rate*



- **Discount Rate:** The amount by which future income is discounted according to various factors, predominately the time value of money and risk allocation.
 - Similar to the concept of an interest rate
 - Strongly related to **inflation** projections and **risk** diversification
- The Discount Rate for the PSC will be ***different*** from the Discount Rate used for the PPP alternatives
 - PSC will likely have a lower discount rate because the public sector can pool risk better and have lower opportunity costs

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Factors in Evaluating PSC *Evaluate Risk & Transfer Opportunities*



- Steps for the Public Manager in Evaluating Risk
 - **Risk Identification**
 - **Risk Assessment**
 - **Risk Allocation**
 - **Risk Mitigation**
 - **Risk Monitoring**
- Risk Transferring – Where do opportunities lie?
 - Where is the public sector best able to handle risk and where is it not?
 - ***It's not always efficient to transfer all risk.***
 - ***It's not always efficient to allocate risk based on the lowest-cost option.***

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Factors in Evaluating PSC

Look At Life Cycle Costs



- Costs over the entire Life Cycle must be considered for an accurate VfM analysis.
- For a PPP, these costs include:
 - Traditional project costs associated with construction/implementation/administration of the project
 - Costs associated with “asset handover” at the conclusion of the project
 - Changes in Supply and Demand over time
 - Public sector compliance monitoring

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Factors in Evaluating PSC

Look At Life Cycle Costs



- Two Steps:
 - Identify all the factors related to the project implementation and estimate the cost of each factor over the life of the project. Include the cost of factors such as **labor, materials, weather, maintenance, research, potential legislation/regulation**, etc.
 - Identify all the factors related to the public's demand for the project and estimate the value of each factor over the life of the project. Include the value of risk of **preference changes** due to technology, movement in socio-economic position, demographics, etc.

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VfM Pitfalls



Where do analyses go wrong?

- Inadequately evaluating risk transfer
- **Outputs vs. Outcomes**
- Confusing good VFM with affordability
- Project creep – **Long term/volatile requirements**
- Falling for “**optimism bias**” in cost predictions

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A Path Forward



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Analysis of Topic Areas: *VFM Applied*



Transportation

Social Infrastructure

***Communications & Information
Technology***

Wastewater Management

Energy

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Transportation



- Benefit of Using Private Sector: Allocation and Reduction of Risk to Government
- Appropriate for New and Improvement Projects
- Factors to consider, based on Cesar Chavez Toll Road
 - Long-term stability of toll revenue based on traffic simulations
 - Statistical risk assessment: change behavior v. pay tolls
 - Revenue estimates v. project cost



Social Infrastructure Projects



- Types of social infrastructure projects
 - Hospitals
 - Civic Buildings
 - Libraries
 - Schools
 - Etc.
- Deriving VfM from Social Infrastructure
 - Importance of Lifecycle Cost
 - Understand and anticipate costs ahead of time
 - Be weary of taking on projects that are subject to major requirements changes
 - E.g. hospitals
 - Value of “Public Goods”



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Communications and Information Technology



- Benefit of Using Private Sector: Geographic scope and inter-jurisdictional integration
- Factors to consider in VfM:
 - **Size and scope**
 - Number of **alternatives** available
 - Long-term management and administrative needs
 - **Scalability** of product offerings

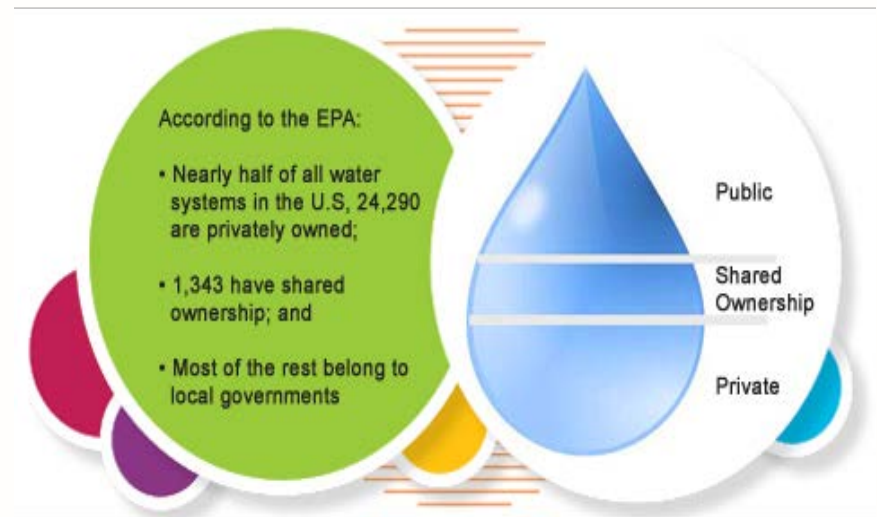


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Water & Wastewater Management



- **Local** solution to a **global** problem
- Importance of considering environmental costs and costs of complying with environmental regulations
- Factors that lead to VfM in these projects
- Irish Experience with Wastewater PPP's and VfM
- Challenges to achieving VfM



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