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# **Value for Money Assessments for Public-Private Partnership Projects**

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# Outline of the Presentation



## Five main topics

- I. Introduction to Value for Money (VfM) Assessments**
- II. When are VfM Assessments Done during the PPP Project Cycle**
- III. Conducting Different Types of VfM Assessments**
- IV. Issues with VfM Assessments**
- V. Resource Materials for VfM Assessments**

# I. Introduction to Value for Money (VfM) Assessments

## What is a VfM assessment and why is it important

- the new *EPEC Guide to Public-Private Partnerships\**, published by the European PPP Expertise Centre, states that a VfM assessment, in a PPP context, is **a tool which allows a Contracting Authority to compare the value of a PPP project with other alternatives**
- this might involve, for example:
  - comparing a proposed PPP project with the alternative of a Traditional Infrastructure Procurement (TIP); or
  - comparing the proposal of one PPP bidder with that of another bidder
- **maximising Value for Money is a key objective** of the PPP policy of many governments
  - accordingly, many countries require VfM assessments to be made for every PPP project

(\*available at <https://www.eib.org/en/publications/epec-guide-to-public-private-partnerships>)

# I. Introduction to VfM Assessments (cont.)

## The scope and nature of VfM assessments

- a VfM assessment involves looking at the **risk-adjusted costs and benefits** of the alternative delivery options, over the entire **life of an infrastructure project**
- a VfM assessment attempts to compare the **net present value** of the costs/benefits of competing project options, taking into account the quantity and quality of infrastructure services being delivered, over time
- a proper VfM assessment should include **both**:
  - a quantitative assessment (with complex financial model spreadsheets, showing adjusted costs/benefits, discounted to the present time); and
  - a qualitative assessment, dealing with those costs/benefits – such as environmental and social costs/benefits – which are difficult to quantify

## I. Introduction to VfM Assessments (cont.)

### Examples of how VfM assessments are used

- because a VfM assessment considers the risk-adjusted costs and benefits over the entire life of an infrastructure project it is a particularly useful tool, **at the initial stages of the Project Cycle**, when comparing a PPP option with a TIP option
  - it forces the Contracting Authority to go beyond simply looking at ‘upfront’ costs of the TIP Public Sector Comparator (PSC) vs those of a PPP option
  
- VfM assessments can be either forward-looking or retrospective
  - retrospective VfM assessments are often used by government performance auditors, **after a PPP project has been completed**, to assess whether taxpayer money has been spent efficiently and effectively

## I. Introduction to VfM Assessments (cont.)

### Some common misperceptions

- **a VfM assessment is not the same as a Cost Benefit Analysis (CBA), although they have some similar features**
  - a CBA is used to assess an individual project – unlike a VfM assessment, which is a comparative tool
  - both use quantitative and qualitative evaluations, and some of the evaluation processes are similar
  - VfM assessment considers the impact of financing structures on the total project cost – which is generally not done in a CBA
  
- **Value for Money is not the same as **affordability****
  - a project that is affordable (to the Contracting Authority and/or end-users) may still be poor Value for Money
  
- ****assessing** the prospective Value for Money of a project is not the same as **achieving** Value for Money**
  - achieving VfM involves the Contracting Authority paying careful attention throughout the entire Project Cycle

## II. When are VfM Assessments Done



- **VfM assessment should be done throughout the PPP Project Cycle**
- the *EPEC Guide to Public-Private Partnerships* divides the PPP Project Cycle into four phases:
  - **Phase I: the Project Identification Phase**, during which the Contracting Authority identifies the proposed project and makes a preliminary determination as to whether it should be delivered as a PPP project
  - **Phase II: the Project Preparation Phase**, during which feasibility studies are prepared, risk allocation plans are developed and the proposed PPP Contract is drafted
  - **Phase III: the Project Procurement Phase**, during which the Project Company is competitively selected, followed by the Commercial Close and the Financial Close
  - **Phase IV: the Project Implementation Phase**, during which the Project Company constructs and operates the project, followed by the handback to the Contracting Authority
- VfM assessments are used at **key decision points** in each of these four phases

## II. When are VfM Assessments Done (cont.)

### I. The project identification phase

- during the **Project Identification Phase**, VfM assessments are primarily used by Contracting Authorities to make a **preliminary, high-level, determination as to how the identified project might be delivered – as a TIP project, a PPP project, or by some other means**
- this ensures that, if the PPP option is chosen, the **motivations to use a PPP approach are clearly defined**
- during this initial phase of the Project Cycle, quantitative data will be extremely limited – and **the preliminary determination as to whether to use a PPP approach will, primarily, be based upon a qualitative VfM assessment**

## II. When are VfM Assessments Done (cont.)

II.  
The project  
assessment and  
preparation phase

- during the **Project Preparation Phase**, VfM assessments are especially important
- using additional information (gained through feasibility studies, market soundings and other means), a more informed, detailed and **quantitative** VfM assessment can be prepared **to confirm – or reject – the initial determination to use a PPP delivery model for the project**
- the more detailed VfM assessment can also help inform the Contracting Authority's **affordability assessment**
- in addition, the more detailed VfM assessment can help to refine the **risk allocation analysis**, and thereby assist with the process of drafting the proposed **PPP Contract**

## II. When are VfM Assessments Done (cont.)

III.  
The project  
procurement  
phase

- VfM assessments are also used during the **Project Procurement Phase**
- VfM assessments can be used as part of the **bid evaluation process**, to compare the competing bids, so as to ascertain which proposal presents the greatest value to the Contracting Authority
- VfM assessments can also be used by the Contracting Authority during any **negotiations – or competitive dialogue processes** – with the bidders
- many countries require that an updated VfM assessment to be done before making a decision to proceed to Commercial Close, i.e., **the signing of the PPP Contract with the winning bidder**

## II. When are VfM Assessments Done (cont.)

### IV. The project implementation phase

- VfM assessments can also be useful during the **Project Implementation Phase**
- if a Contracting Authority receives, from the Project Company, a request for a **renegotiation of the PPP Contract** during the implementation of the project, a VfM assessment can help to guide the Contracting Authority as to the acceptability of any proposed modifications to the existing agreement between the parties
- in addition, VfM assessments are frequently used by government performance auditors – as part of the standard **implementation evaluation process** – to determine if a PPP project has provided better value than the Public Sector Comparator, and to extract ‘lessons learned’ for future PPP transactions

## III. Conducting VfM Assessments

### Overview of the VfM assessment process

- **most ‘forward looking’ VfM assessments are conducted either by the Contracting Authority itself or by a specialised team within the central government PPP Unit (as indicated, retrospective VfM evaluations are usually done by government performance auditors)**
- **in any event, it is important for the Contracting Authority to ‘own’ the VfM assessment, in the sense of having a thorough understanding of both the details of the assessment process and the results of the analysis**
- **as indicated, VfM assessments can be both qualitative and quantitative, on the basis that the assessments which take place early in the PPP Project Cycle are usually more qualitative in nature**

### III. Conducting VfM Assessments – Qualitative Assessments



Photo credit: Ernesto Eslava, on Pixabay

- there are two types of qualitative VfM assessments:
  - **suitability** tests, to determine if a PPP approach is appropriate
  - assessments of **unquantifiable** benefits and costs
- for a suitability test, a **checklist** is often used, to see if a PPP approach should be chosen, taking into account factors such as:
  - the country's PPP legal and regulatory framework
  - public/private sector capacity to deliver the project as a PPP
  - public and political support for using a PPP approach for the project
- when assessing unquantifiable benefits and costs, the Contracting Authority should start by **identifying key objectives**, such as, for example:
  - achieving improved quality and better service delivery
  - piloting new ways to reduce a project's carbon footprint

# III. Conducting VfM Assessments – Quantitative Assessments



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- as indicated, quantitative VfM assessments can be used to compare a PPP approach with a TIP approach, and can also be used to compare different PPP proposals
- during the initial phases of the Project Cycle, when comparing PPP vs TIP approaches, **the key question is whether the value of the risks transferred to the Project Company outweighs the additional costs of private sector financing**
  - it is important to compare the same levels of service delivery quality over the same period of time
- during the Procurement Phase, quantitative VfM assessments can be used to compare the received bids against the ‘shadow bid’ developed by the Contracting Authority, and can **also** be used to compare the bidders’ proposals against one another

# III. Conducting VfM Assessments – Quantitative Assessments (cont.)



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- quantitative VfM assessments involve calculating the costs of each delivery option on a **net present value** basis
  - this is especially important when comparing PPP vs. TIP options, given the **very different time profiles** of costs payable by the Contracting Authority
  - accordingly, careful attention needs to be paid to the selection of an appropriate **discount rate**, to recognise the ‘time value of money’
- **project risks** are usually reflected as adjustments to the anticipated cash flows associated with the project
- the calculations for a quantitative VfM assessment are usually presented in **sophisticated financial model spreadsheets**

## IV. Issues with VfM Assessments – Qualitative VfM



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- qualitative VfM assessments involve the application of **discretionary professional judgement** – which can make such assessments **susceptible to manipulation**, in order to achieve a preferred result
- great care must be taken to **select the criteria** on which to base the qualitative VfM assessment – and to properly weigh the **relative priorities** of the selected criteria
  - for example, should greater weight be given to social impact criteria vs. environmental impact criteria
- **the available evidence**, on which to base a judgement, **may be weak or non-existent**

## IV. Issues with VfM Assessments – Quantitative VfM



Photo credit: Goumbik, on Pixabay

- a quantitative VfM assessment uses a long-term cash flow financial model to determine the net present value of the projects costs and revenues – which involves making multiple complex assumptions, including :
  - the **adjustments to costs and revenues that should be made to recognise risk transfers** to the private sector Project Company
  - the relative costs of product sector **financing**
  - the **discount rate** to be used to recognise the ‘time value of money’
  
- because quantitative VfM assessments are presented in the form of detailed spreadsheets, they can provide **a false perception that the assessments are highly accurate** – when, in fact, they are dependant on a number of critical assumptions, as noted above

## IV. Issues with VfM Assessments – General



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- **timing is critical:**
  - if a VfM assessment is carried out too early in the Project Cycle, sufficient data may not be available – even for a preliminary qualitative assessment
  - if it is carried out too late, the assessment may not have any impact, since key decisions may have already been made
- VfM assessments are complex tasks, and the **cost** of undertaking the necessary work (particularly for quantitative assessments) may not be justifiable for a small project
- because many countries require VfM assessments for all PPP projects, Contracting Authorities may regard them as a **burdensome duty** – with the result being that the assessments are not conducted with due diligence

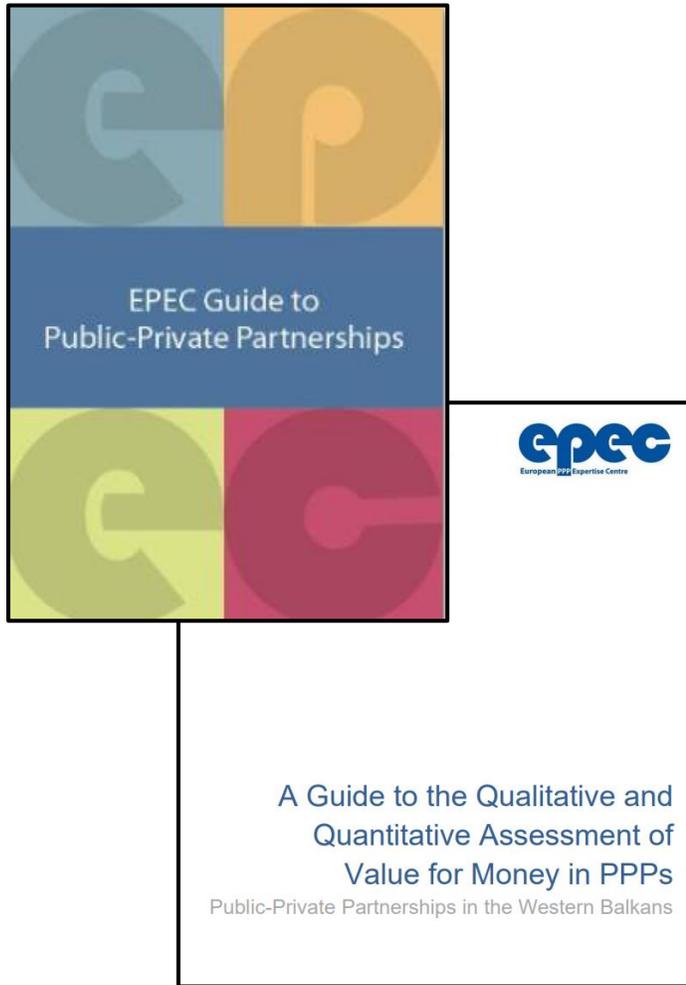
## IV. Issues with VfM Assessments – Recommendations



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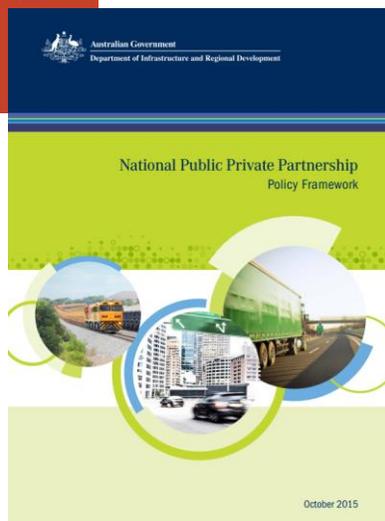
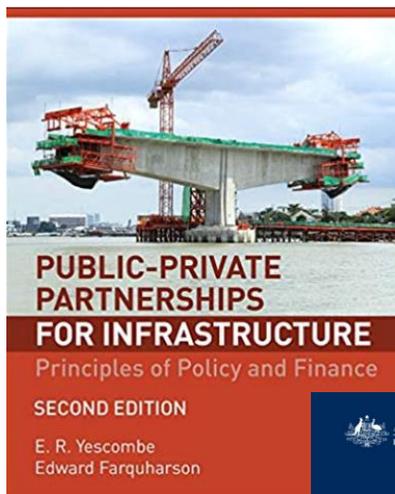
- it is now considered ‘best practise’ to use **both** qualitative and quantitative VfM assessments to evaluate PPP projects and compare them with other project delivery options
- for quantitative assessments, **costs can be reduced by using standardised spreadsheet models; standardised risk adjustments; and standardised PPP Contract terms** – but this must be done with care, recognising the diversity of PPP projects
- having a **specialised team** undertake all of the comparative VfM assessments allows Contracting Authorities to benefit from the team’s prior experience with these complex tasks

## V. VfM Resource Materials



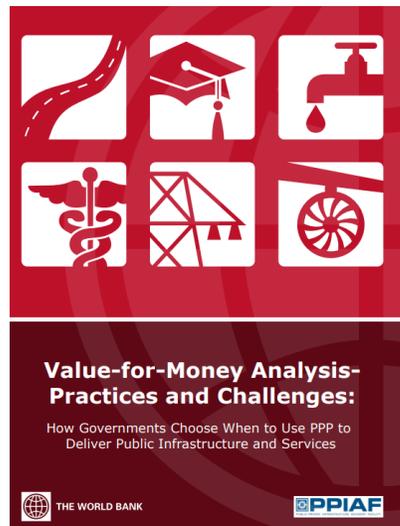
- **the *EPEC Guide to Public-Private Partnerships*, EPEC (2021) – available at <https://www.eib.org/en/publications/epec-guide-to-public-private-partnerships>**
  - **this very recent publication describes (in Chapter 2) how VfM assessments are used during the various phases of the PPP Project Cycle, and also provides a separate discussion (in Chapter 3) of the key issues associated with qualitative and quantitative VfM assessments**
- ***A Guide to the Qualitative and Quantitative Assessment of Value for Money in PPPs*, EPEC (2018) – available at <https://www.wbif.eu/storage/app/media/Library/8.%20Public%20Private%20Partnership/2.%202-Value-for-Money-Assessment-Guide-FINAL-310818.pdf>**
  - **this additional EPEC guidance, designed for use in the Western Balkans, provides a series of tools and checklists for undertaking VfM assessments**

## V. VfM Resource Materials (cont.)



- ***Public-Private Partnerships for Infrastructure: Principles of Policy and Finance, Second Edition*, by E. R. Yescombe and E. Farquharson (2018) – published by Butterworth-Heinemann, ISBN: 9780081007662**
  - Chapter 8 of this book provides guidance on the use of VfM assessments throughout the PPP Project Cycle
  
- ***National PPP Policy and Guidelines, Government of Australia (2015) – available at***  
<https://www.infrastructure.gov.au/sites/default/files/migrated/infrastructure/ngpd/files/National-PPP-Policy-Framework-Oct-2015.pdf>
  - Volume 1 of this policy document discusses various delivery options for infrastructure projects, and explains how VfM assessments can be used as decision-making tools
  - Volume 4 provides a detailed description of the Public Sector Comparator test

## V. VfM Resource Materials (cont.)



- **the *APMG Public-Private Partnership Certification Guide*, APMG (2016) – available at <https://ppp-certification.com/ppp-certification-guide/16-value-money-assessment>**
  - Chapter 4 of the Guide, dealing with “Appraising PPP Projects”, contains – in Section 16 – an outline of the processes used to conduct quantitative and qualitative VfM assessments
  
- ***Value for Money Analysis – Practices and Challenges: How Governments Choose When to Use PPP to Deliver Public Infrastructure and Services*, World Bank Group/PPIAF (2013) – available at <https://documents1.worldbank.org/curated/en/724231468331050325/pdf/840800WPOBox380ey0Analysis00PUBLIC0.pdf>**
  - this World Bank report presents the findings from a debate amongst PPP practitioners, from both developed and emerging markets



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