



HOW TO ATTAIN VALUE FOR MONEY: COMPARING PPP AND TRADITIONAL INFRASTRUCTURE PUBLIC PROCUREMENT

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INTRODUCTION

- Governments increasingly use PPPs to pursue value for money.
- Value for money should be the driving force behind PPPs and traditionally procured projects (TIP).
- Some factors skew choice towards TIP, others skew it towards PPPs.
- Drawing on questionnaire, paper considers factors that may skew choice and thereby undermine the pursuit of value for money.
- Paper sets out some good practices that will align the requirements for PPPs and TIP.

PART I – SURVEY RESULTS

A) BACKGROUND INFORMATION

- The survey was conducted during January 2010.
- Questionnaires were sent to senior PPP and ministry of finance officials in 31 countries
- A total of 22 OECD countries responded
- 20 countries indicated that they do use PPPs

Table 3 – What percentage of public sector infrastructure investment takes place through PPPs?

Range	N	Country
0% - 5%	9	Austria, Germany, Canada, Denmark, France, Netherlands, Hungary, Norway, Spain
>5% - 10%	7	United Kingdom, Czech Republic, Slovak Republic, Greece, Italy, South Africa, Ireland
>10% - 15%	2	Korea, New South Wales
>15% - 20%	0	
>20%	2	Mexico, Chile
Total	20	

B) THE PROBLEM STATEMENT

- a) The rules in place impede attaining the maximum value for money by creating incentives to prefer traditional infrastructure procurement over PPPs?
- b) The rules in place impede attaining the maximum value for money by creating incentives to prefer PPPs over traditional infrastructure procurement?

Table 4 - Do you think that the rules in place impede attaining the maximum value for money by creating incentives to prefer:

	TIP over PPPs?	PPPs over TIP?
Yes, to a large extent	2	0
Yes, to some extent	5	1
No	9	15
Not enough data to make assessment	4	4
Total	20	20

C) EX ANTE VALUE-FOR-MONEY ASSESSMENT

Table 10 - Is there an ex ante process to ascertain value-for-money (this may include a whole-of-life/net-present-value approach) for PPPs and TIPs?

	PPP	TIP
Yes, for all	11	7
Yes, for those above a threshold	5	5
Yes, on an ad hoc basis	3	0
No	1	8
Other	0	0
Total	20	20

Table 12 - What method/process is used to ascertain value-for-money in the case of PPPs and TIPs?

PPP		TIP	
Public sector comparator	17	Cost-benefit analysis	12
Public interest test	2	Cash-flow est. over proj cycle	3
Central guidelines	5	Central guidelines	5
Other	2	Other	3

How do governments choose *between* PPPs and traditional infrastructure procurement?

- Small number of countries apply criteria to *all* prospective projects.
- In several countries TIP is simply default procurement option

“In theory there is some kind of value for money but in practice, there is no formal test applied to all infrastructure procurements. The decision to procure as a PPP has been largely driven by champions inside individual government departments/agencies. Once a department/agency decides to look at procuring as a PPP, they would do a value-for-money analysis to support the decision.”

D) ROLE OF THE MINISTRY OF FINANCE AND PARLIAMENT IN THE APPROVAL PROCESS

Table 17 - Does the ministry of finance have a formal, gate-keeping role with respect to the approval of specific projects (even when these projects fall within the existing approved budget envelope of the line ministry responsible) in the case of PPPs and TIPs?

	PPP	TIP
Yes, for all	7	3
Yes, for those above a threshold	3	5
Yes, on an ad hoc basis	4	5
No	2	4
Other	4	3
Total	20	20

Table 18 - If approval is required, is this done with respect to which of the following?

	The size of the project (in financial terms)	Value for money	Whether correct procedures have been followed in the project development	Assessment of whether the project adheres to the intention of the original budget appropriation
PPP	13	14	11	11
TIP	10	7	6	10

Table 20 - Does the PPP unit have a formal, gate-keeping role with respect to the approval of specific projects (even when these projects fall within the existing approved budget envelope of the line ministry responsible) in the case of PPPs and TIPs?

Yes, for all	6
Yes, for those above a threshold	1
Yes, on an ad hoc basis	1
No	7
Other	1
Not answered by those who answered 'no' to question reported in Table 8	4
Total	20

A) ACCOUNTING ISSUES

Table 25 - Have accounting mechanisms been put in place that formally account for the contingent liabilities and costs generated by PPP projects

Yes	13
No	7
Total	20

F) EX POST VALUE FOR MONEY ASSESSMENT

Table 26 - Do line ministries, the ministry of finance or the PPP unit conduct ex post value for money assessments of projects as measured against specific pre-specified performance benchmarks (defined for each project either when the project commences or during the lifetime of the project) in the case of PPPs and TIPs?

	PPP	TIP
Yes, for all projects and with a set frequency (e.g. annually or every two years)	0	0
Yes, for all projects, but no set frequency	3	0
Yes, for a selection of projects, with a set frequency	1	2
Yes, for a selection of projects, but no set frequency	7	8
No	4	7
Other	5	3
Total	20	20

G) OTHER ELEMENTS THAT MAY INFLUENCE THE CHOICE BETWEEN PPPs AND TRADITIONAL INFRASTRUCTURE PROCUREMENT

Table 30a – Do the following make PPP more attractive in comparison to TIP?

	The project generates debt that is not on the balance sheet of government	The project requires high level of constant maintenance	The project requires a high level of service delivery performance
Yes	4	10	12~
No	9	2	0
Sometimes	4	5	4
Not answered	3	3	6
Total	20	20	20

Table 30b - Do the following make PPP more attractive in comparison to TIP?

	The project requires skills that are more readily available in the private sector, compared to the public sector	Strong Public Unions in the public sector in the relevant sector
Yes	9	0
No	2	11
Sometimes	6	3
Not answered	3	6
Total	20	20

Table 31a - Do the following make TIP more attractive in comparison to PPP?

	The project is politically/strategically important (e.g. defence)	The project is complex in management and design	The project risk is difficult to quantify and measure (e.g. large IT investments)
Yes	9	2	10
No	5	8	3
Sometimes	3	5	3
Not answered	3	5	4
Total	20	20	20

Table 31b - Do the following make TIP more attractive in comparison to PPP?

	The project requires high level of constant maintenance	The project requires a high level of service delivery performance	The project requires skills that are more readily available in the private sector, compared to the public sector	Strong Public Unions in the public sector in the relevant sector
Yes	1	0	0	5
No	12	12	12	4
Sometimes	2	3	3	3
Not answered	5	5	5	8
Total	20	20	20	20

A: Has political preferences towards private sector service delivery contributed in the past towards a preference for procurement through PPPs?

- B: Has political preferences towards public sector service delivery contributed in the past towards a preference for procurement through TIPs?

Table 32 – Political preferences

	A	B
Yes, to a large extent	1	4
Yes, to some extent	6	9
No	12	7
Other	1	0
Total	20	20

PART II: DISCUSSION

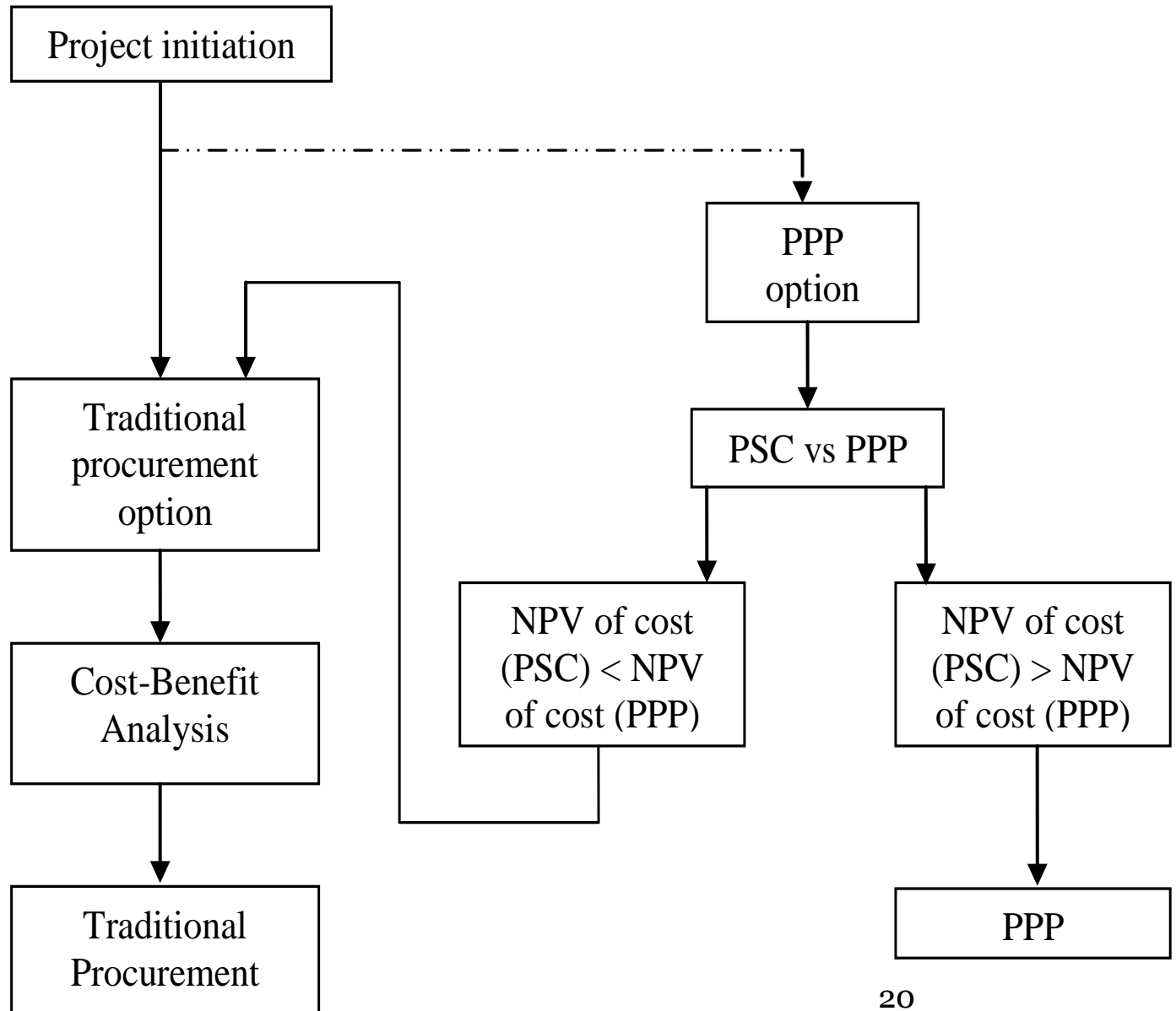
- Traditional procurement *most common* procurement mode, but also still constitutes the *default* mode of procurement.
 - Though it will probably remain the most common procurement mode, it need not remain the default mode.
- Many countries still do not have clear criteria to identify how projects get to be either PPP candidates or TIP candidates.

With the above analysis as background the paper developed three sets of recommendations:

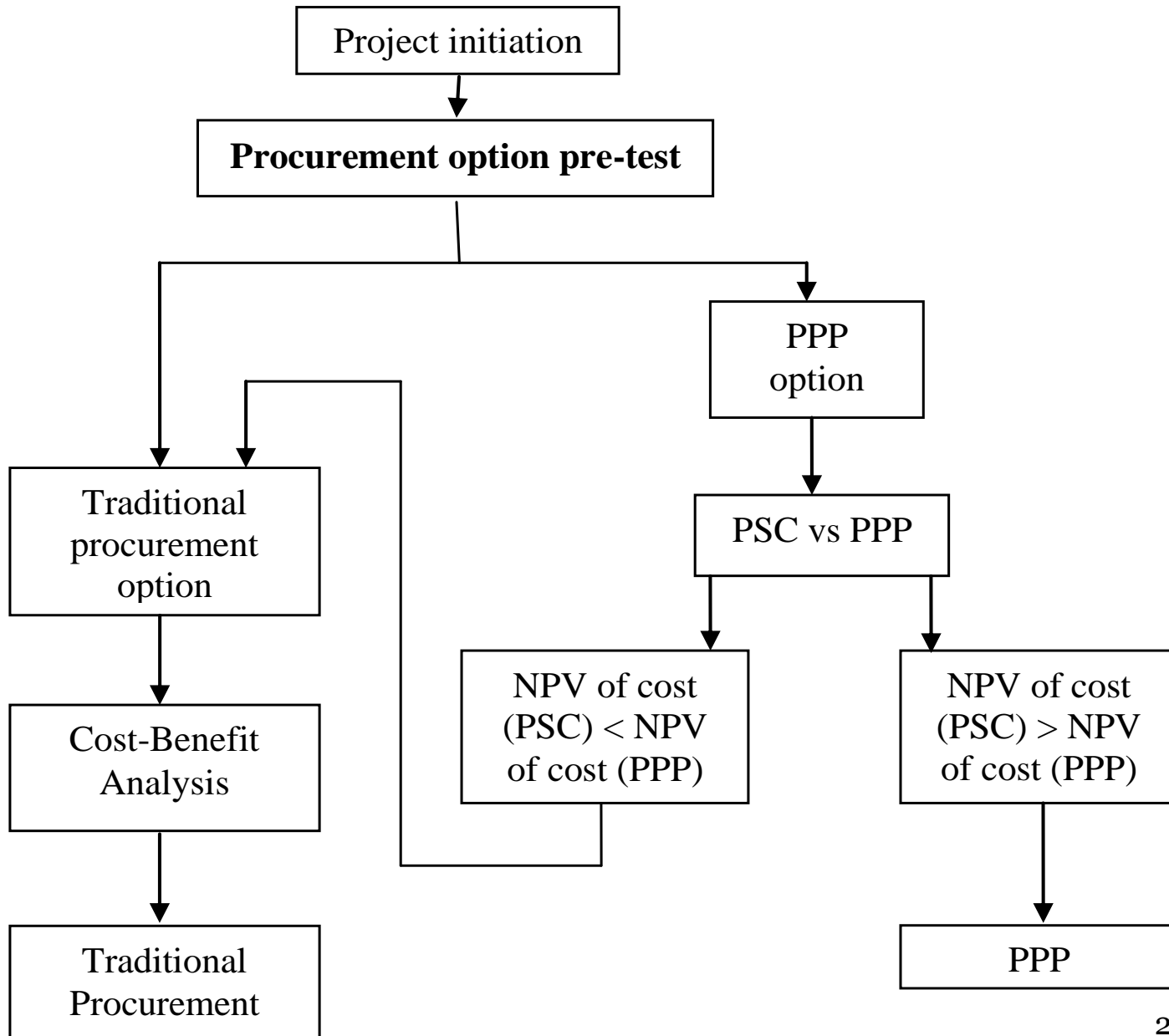
1. *Ex ante* value for money assessment

- Early in the procurement process a project should be subjected to a *procurement option pre-test*.
- It guides government in selecting which mode of procurement is likely to deliver the most value for money.
- Paper develops criteria for pre-test (includes aspects of competition and risk transfer).

The procurement choice with traditional procurement as the default option



The procurement choice with a procurement option pre-test



- Criteria that should be considered in a procurement option pre-test
- a) *Can risk be defined, identified and measured?*
 - b) *Can the right type of risk be transferred?*
 - c) *Is the size of risk large enough to serve as an incentive towards value for money?*
 - d) *Are private partners willing to accept the risk to be transferred to them?*
 - e) *How much competition is there for the market?*
 - f) *How much competition is there in the market?*
 - g) *How large are the benefits from combining the construction and the operating phases of the project in a whole-of-life contract?*
 - h) *Can quality and quantity of service output that the private partner must deliver be clearly measured so as to deal with possible cost and quality trade-offs?*
 - i) *How much innovation is required?*

- j) What is the availability in public sector of the skills needed to operate the asset?***
- k) How rapidly and significantly does technology needed for the project change?***
- l) How much flexibility does government want to change the output specifications of the service to be delivered?***

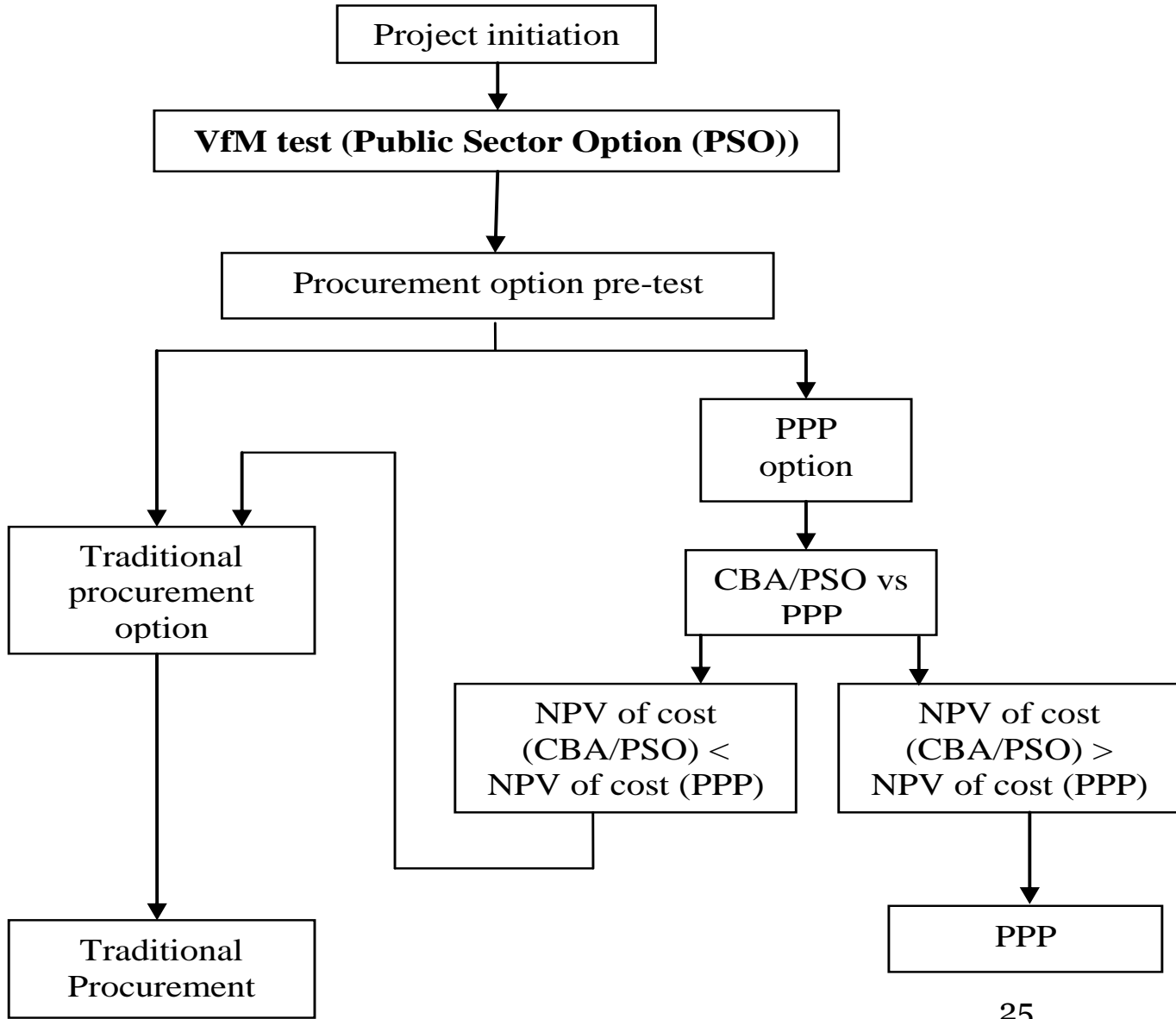
The choice between a pure PPP (depending on government for its revenue stream) and a concession (depending on user charges levied directly on the beneficiaries of the service) adds further criteria:

- m) Is demand sufficient to render the levying of user charges a viable source of income for a concessionaire?***
- n) Does the service create externalities that might give rise to a free-rider problem and hence lead to demand not being revealed by beneficiaries?***
- o) To what extent is there a need for/desire by government to subsidise all or part of the beneficiaries of a service?***

2. *Ex post* value for money assessment:

- a) Data recorded and reported on a *whole-of-life project-by-project* basis and that subsequently an *ex post* assessment of both PPPs and traditionally procured projects is made.
- b) To deal with *optimism bias* and to ensure a more robust comparison between procurement options, both TIP and PPP projects should *ex ante* include adjustment for possible cost and time overruns and revenue shortfalls.
 - Should be done for construction *and* operating phase.
 - Adjustments render *ex post VfM* assessments more reliable (i.e. if a PPP outperforms a TIP, its not due to optimism bias, but due to the actual improvements in VfM).

Unified framework for public procurement options



3. *A unified framework* within which to deal with the choice between procurement options. Done prior to procurement option pre-test.

- Ensures that the public sector option (PSO) always represents VfM whatever the procurement method chosen.
- PSO might form part of a broader cost-benefit analysis, but focus is narrower as direct costs and benefits are easier to measure.
- The PSO will become public sector comparator should procurement option pre-test then indicates that PPP might deliver more VfM than TIP.
- If PPP bids outperform PSO, project becomes PPP.
- Should PPP bids fall short of PSO, project reverts back to TIP since PSO indicated it represents VfM