



Day 2 Session 5

# Procurement in Achieving Value for Money and Performance Based Service Delivery

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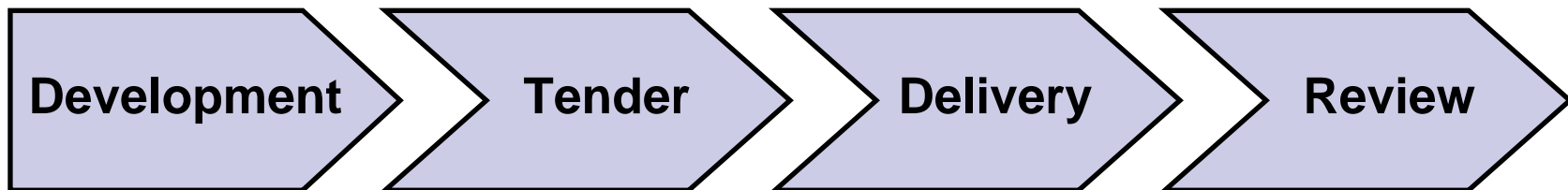


# Agenda

- PPP Procurement Overview
- Value for Money in The Procurement Cycle
- Value for Money Assessment
- Delivering Value for Money and Performance

# PPP Procurement Overview

- PPP is a method of procurement that involves the private sector in delivering a public service
- Emphasize service or capability that the public sector requires rather than the assets used to provide them
  - Performance Based Approach
- PPP contracts are long-term in nature and the duration of a contract reflects the long-term nature of the service required:

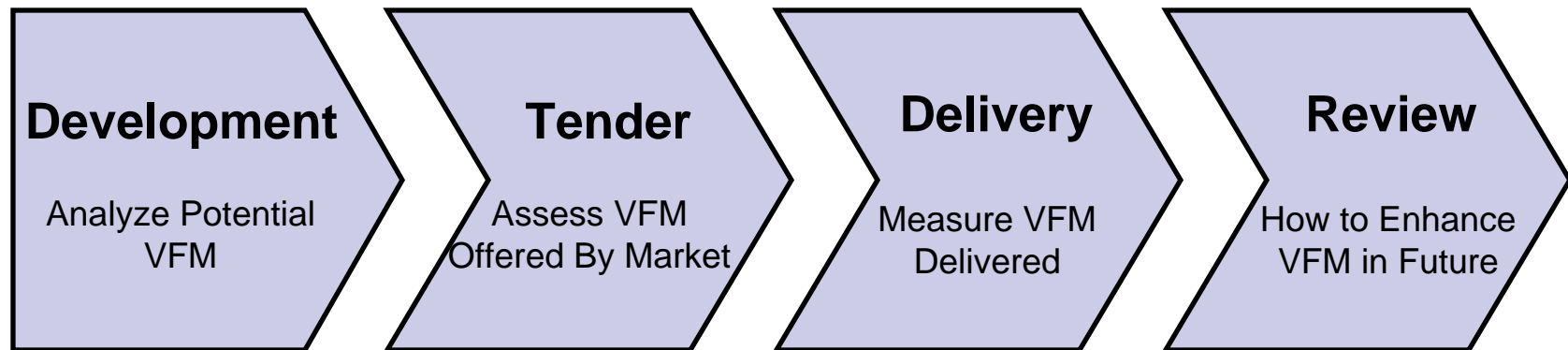


# Value for Money (VFM)

- The optimum combination of whole life cost and quality (or fitness for purpose) to meet the public service requirements
- The best available outcome after taking account of all benefits, costs and risks over the whole life of the procurement
- VFM is more than lowest cost:
  - Increased benefits to the end-users of a service
  - Greater certainty of the financial outcome due to less exposure to risks
  - The delivery of a service or capability at a specified level for a lower cost
- Additional benefit of PPP procurement approach

# Value for Money (VFM)

- Assessed at all stages of procurement:



# VFM – Key Drivers

Risk Transfer

Whole of Life  
Costing

Private Sector  
Management Skills

Competition

Performance  
Measurement

Output  
Specification

Performance Based Approach

# VFM – Risk Transfer

- Optimal risk allocation of project risk is a key driver
  - Optimal allocation occurs when risk is allocated to the party able to manage it at lowest cost
  - Enables more efficient and cost effective delivery
- Transferring risk is not an end in itself
  - Inappropriate transfer of risk will lead to ‘premium’ pricing
  - PPP process seeks to identify the optimal allocation through the tender process by assessing market’s view of the cost of risks
- Service delivery risk transferred to private sector under the performance based contract

# VFM – Whole of Life Costing

- Incorporates whole of life costs of procurement
  - Assets, capital and lifecycle costs of service delivery
- Whole of life focus drives efficiencies
  - Minimise overall costs if asset construction or redevelopment required
- Whole of life approach transfers cost risks to private sector
  - Government insulated from higher maintenance or lifecycle costs over life of project
- Avoids backlog maintenance issues into the future – asset maintenance “locked in” for many years

# VFM – Output Specification

- PPP projects typically use an output specification
  - Define deliverables in terms of outputs required rather than inputs
  - Allows bidders to consider best way of achieving outputs, describes the required service level
- Output focus complements the performance-based payment regime typical for PPP projects

# VFM – Performance Measurement

- Payment Mechanisms to incentivise performance and linking to payment
- Key Performance Indicators (KPIs) set benchmarks for the quality of contractor performance
- Penalties applied for sub-standard performance
- Represents major change in traditional delivery approach
- Examples include:
  - Maintenance rectification periods
  - Minimum standards of cleanliness etc

# VFM – Private Sector Management

- Role of the bid Sponsor is important to value for money delivery
- The ability to successfully manage and motivate sub-contractors to perform is key
- Due diligence prior to financial close also beneficial to understand the quality of the contractor
- Skills are difficult for the public sector to acquire
- Different incentives for public and private sectors

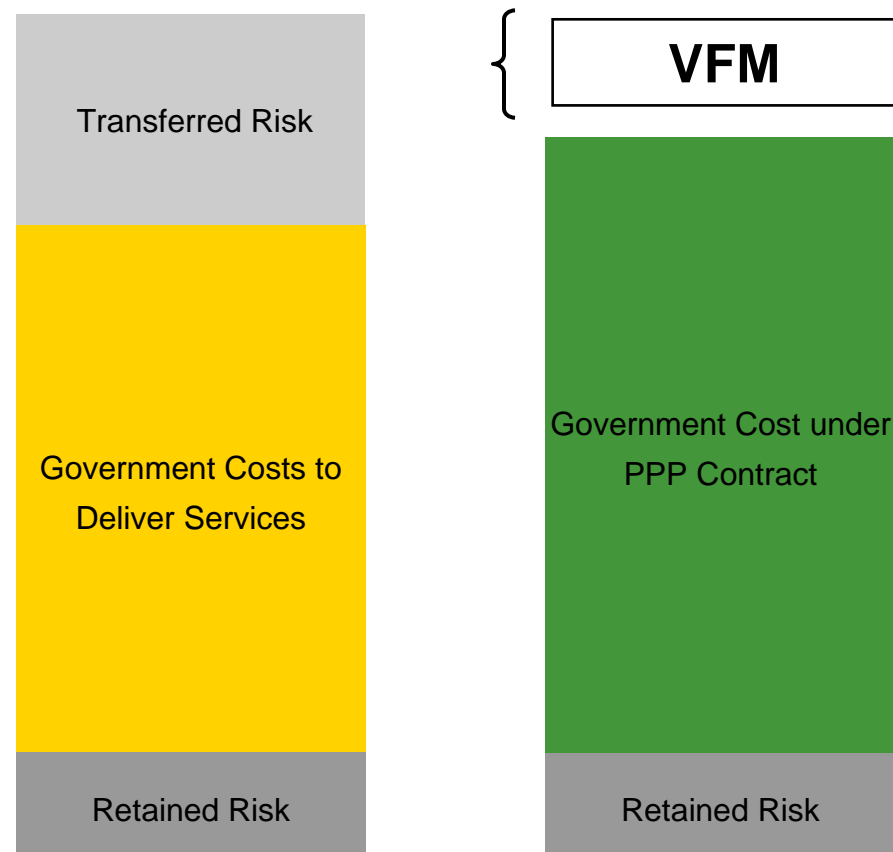
# VFM – Competition

- Use of competitive tension key part of procurement
- Competition drives bidders to offer services at a competitive price in order to win the contract
- Government is able to access private sector skills at a lower cost
- Procurement process structured to generate competition
- Maintain competitive tension for as long as possible during tender stage

# VFM Assessment

- Private sector can only deliver VFM if it manages **cost** and **risk** of the service delivery more effectively
- During tender stage, assess bids based on potential to realise greatest VFM
- If service is not currently being provided, VFM may be based on the service that the private sector is offering to deliver under a viable contractual arrangement

## Comparison to Existing Cost of Service Delivery



# VFM Assessment

- Value for Money is determined through a comparative analysis of the benefits, costs, and risks of the available PPP alternatives
- Assessing the value of these variables requires the use of quantitative and qualitative analysis
- The assessment is independent of the accounting classification and budgetary implications of a PPP arrangement

# Delivering VFM and Performance

- Effective Contract Monitoring is essential to ensure VFM is obtained
- PPP projects are typically complex and require effort to manage:
  - Payment mechanisms
  - Variations and change inevitable over the long term
- Objectives of contract monitoring are to:
  - Effectively manage government's risks
  - Ensure VFM and agreed level of service are delivered



# Delivering VFM and Performance – Payment Mechanism

- Payment Mechanism that is realistic, challenging but achievable performance standards
  - Capable of objective measurement
  - Recordable and reflect commercial reality
- Provides private sector with incentive to meet the required standards and to rectify problems
- Allows payments to match standards of service
- Encourages private sector to innovate and secure efficiency gains
- Essential to be objective, transparent and easy to operate

# Delivering VFM and Performance - Contract Monitoring

- Contract monitoring framework to have 3 pillars:
  - Quality of the Contractor
    - Key issue is ongoing credit-worthiness of private sector entity
  - Quality of management of contract by public sector
    - Key issue is building and maintaining a relationship
  - Quality of the underlying contract
    - Key issue is clarity of performance requirements and reporting obligations
- Public sector needs to understand the business of the provider
  - Early warnings on health of contractor



Thank you

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