Value for Money in PPPs

Value for money is a key concept in PPPs.

What is "Value for Money"?

VALUE FOR MONEY is an assessment of the relative costs and benefits of a project over the long term.

To give a simple example, consider the task of choosing an airline for a business trip. There is a specific window of time in which you wish to travel. You might have a choice between an expensive full service airline, and a much cheaper low cost airline. However, value for money does not mean lowest cost. You might take into consideration the fact that a meal would be included in the airfare on the full service airline, but not on the low cost carrier. You might also take into account the convenience (in terms of the arrival time), the likelihood that the flight would actually arrive on time, and the likelihood that the flight would be cancelled. Taking all these factors into account, you might decide that the full service airline, despite having the most expensive fare, offers the best value for money. This example illustrates that you cannot judge value for money based on the cost of one input in isolation.

The following table provides an example of a value for money analysis of a choice of airlines.

Airline	Airfare	Extras	Convenience (Arrival Time, PM)	On time? (%, May 2012)	Cancellations (%, May 2012)
Jetstar	$74	$12	9:50	70.4	0.7
Qantas	$122	$0	8:15	88.1	0.7
Virgin Australia	$104	$12	9:00	85.9	1.3

Figure 1: Value for money example – choosing an airline. Data collected 15 July 2012. Sources:
Prices and arrival times: www.wotflight.com.au
Extras: Foster Infrastructure estimate
On time / cancellation performance: www.bitre.gov.au

Value for Money drivers in PPPs

The value for money drivers in PPPs include:

1. FULL INTEGRATION — under the responsibility of one party — of up-front design and construction costs with ongoing service delivery, operational, maintenance and refurbishment costs. The resultant whole-of-life planning and costing encourages the optimal balance between these costs. For example, a bidder may choose more expensive construction materials, knowing these will result in a lower maintenance cost and hence better value for money on a whole-of-life basis.
2. A focus on OUTPUT SPECIFICATIONS, providing wider opportunities for bidders to develop innovative solutions. For example, in a wastewater treatment project, the private sector must treat wastewater so that it complies with certain parameters. There are a range of technologies available that can do this, and bidders can choose whatever innovative solutions are suited to the particular project.
3. EFFICIENT RISK ALLOCATION – allocating a risk to a private party which can better manage it can reduce the overall cost to government of the project.
4. ASSET UTILISATION – infrastructure developed by government is often not fully utilised. In some instances, private sector providers are motivated to develop opportunities for revenue beyond the government payment stream and this is used in part to reduce the cost of services to government.
5. PPP projects are delivered through a RIGOROUS PROCESS. Later sections of this presentation examine in more detail how this process helps us obtain value for money.