Gautrain: Using the PSC and determining VFM

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WBI Global Roundtable on VFM

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Contents

• Defining VFM in South Africa
• How is it applied?
• What does it achieve?
• What are its shortcomings?
“value for money” means that the provision of the institutional function or the use of state property by a private party in terms of the PPP agreement results in a net benefit to the institution defined in terms of cost, price, quality, quantity, risk transfer or a combination thereof
VFM must be demonstrated at all stages of the project ie:

- Feasibility Study Stage
- Procurement Documentation
- Selection of Preferred Bidder
- Contract signing

- National Treasury must consider VFM in its approvals
- Major changes in assumptions require re-approval
Feasibility study framework

1. Needs analysis
   - Strategic objectives
   - Budget
   - Institutional environment
   - Output specifications
   - Project definition

2. Options analysis
   - Options analysis
   - Options selection

3. Project due diligence
   - Legal
   - Site
   - Socio-eco

4. Value assessment
   - Base PSC
   - Risk-adjusted PSC
   - PPP reference
   - Risk-adjusted PPP
   - Sensitivity analysis
   - Affordability
   - Value for money
   - Procurement choice
   - Info verification

5. Economic valuation

6. Procurement plan

7. Feasibility Study for TA: I

8. Revisiting feasibility study for TA: III
VFM Applied

• In this very structured environment VFM is applied by quantitative and qualitative means
• Quantification is by use of the PSC
• If the Quantitative measures do not demonstrate clear VFM then qualitative measures may be used
• These are not defined but must relate to the choice between PPP and TP (not to the project itself)
## Value-for-money comparison

<table>
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<th>Value-for-money comparison</th>
<th>Public sector comparator</th>
<th>PPP reference</th>
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<td>Financial Model</td>
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<td>Legal, financial, technical, commercial, socio-economic, institutional impact of the option</td>
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<td>Costs</td>
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<td>Assumptions for model (inflation, interest rate, tax, VAT, depreciation, budget and MTEF)</td>
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<td>Funding options</td>
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<td>Any contributions by government</td>
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<td>Net present cost</td>
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<td>Risk adjustments</td>
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<tr>
<td>Risk adjustments net present cost</td>
<td>RA-PSC</td>
<td>RA-PPP-ref</td>
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Affordability and value for money

- Preliminary affordability
- Nominal affordability
- Preliminary value for money TA:I
- Value for money TA:III
- Retained risk

Public sector comparator (PSC) 
Risk-adjusted PSC 
PPP reference 
Private sector proposal
What does it achieve?

• It imposes a discipline on projects and the assumptions that underly them
• It allows for rational decision making
• It makes any bias explicit
• It is useful in procurement as a measure against which private sector bids are measured
What does it achieve?

- In Gautrain it was used and a VFM of 16% was determined.
- The difference lay in risk and build efficiency.
- Assumptions were based on empirical evidence of delays and cost over-runs on large TP projects.
- Since project had large government grants, cost of private finance was not a significant factor.
What are its shortcomings?

- It is very mechanical and if abused / misapplied then gives nonsensical outcomes.
- For example, risk valuations at 50% of project costs.
- The qualitative measures vary and are subjective.
- It's not well understood even by those who use it.
Should we abandon VFM?

• No, VFM is a key consideration in project (PPP) approval
• It needs to be used carefully and shouldn’t be elevated above its use
• Its use should be extended to non PPP projects (in a simple manner!)
Thank You
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