GAUTRAIN

FOR PEOPLE ON THE MOVE

Gautrain: Using the PSC and determining VFM

William Dachs

Gautrain Management Agency

WBI Global Roundtable on VFM

28 May 2013

Contents

- Defining VFM in South Africa
- How is it applied?
- What does it achieve?
- What are its shortcomings?

VFM Defined

"**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 Defined

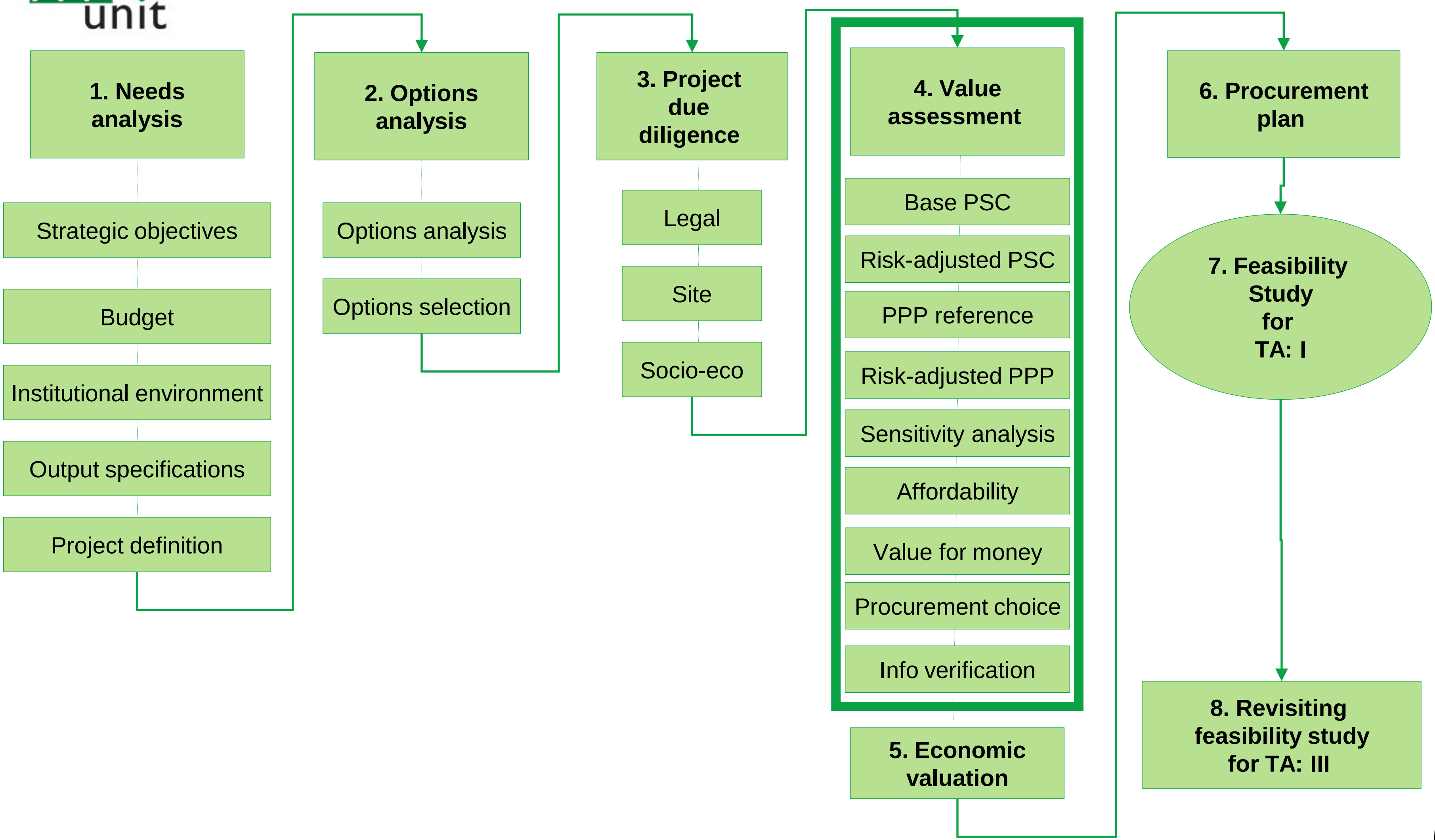
VFM must be demonstrated at all stages of the project ie:

- 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



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)

NATIONAL TREASURY

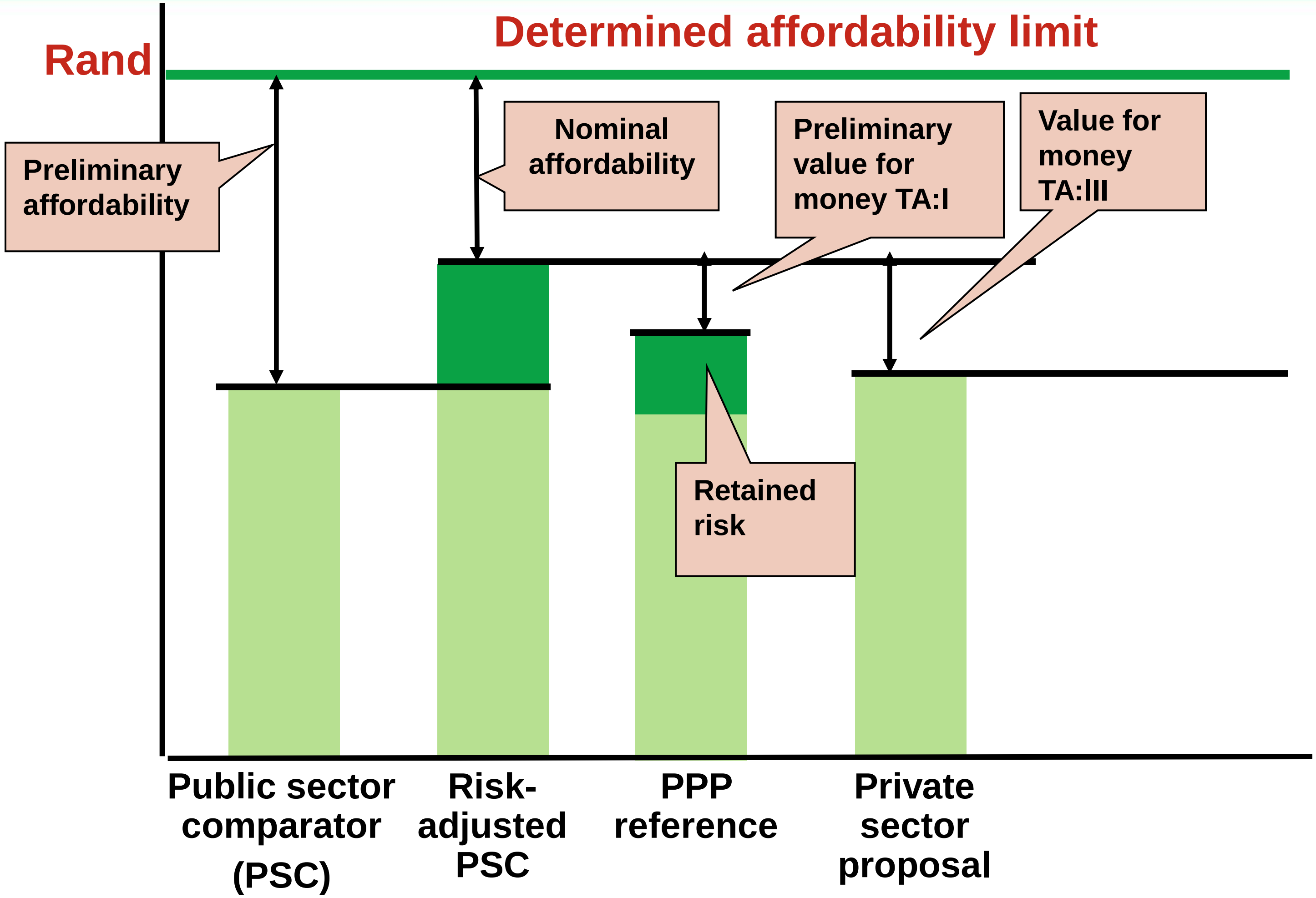
PPP unit

Value-for-money comparison

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

4

Affordability and value for money



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
- Its 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!)

GAUTRAIN
FOR PEOPLE ON THE MOVE

Thank You

www.gautrain.co.za

0800-Gautrain