THE DEVELOPMENT OF VALUE FOR MONEY (VFM) ASSESSMENT TOOL FOR PUBLIC PRIVATE PARTNERSHIP (PPP) APPROACH

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Contents

1. Letter of Report Submission iii
2. Letter of Offer (Research Grant) iv
3. Acknowledgements v
4. Enhanced Research Title and Objectives vi
5. Report 7
5.1 Proposed Executive Summary 7
5.2 Enhanced Executive Summary 8
5.3 Introduction 9
5.4 Brief Literature Review 11
5.5 Methodology 16
5.6 Results and Discussion (Quantitative analysis) 35
5.7 Results and Discussion (Qualitative analysis) 49
5.8 Comparative findings between quantitative and qualitative analysis 60
5.9 Conclusion and Recommendation 70
5.8 References/Bibliography 71
6. Research Outcomes 73
7. Appendix 75

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5.2 Enhanced Executive Summary

Primarily value for money in public private partnership projects can be defined as the optimum combination of whole life cost and quality to meet the user's requirement. Based on the contingency theory, value for money is abroad term that captures both elements of financial and non-financial aspects in the evaluation. Several diverse approaches to assess value for money had been applied in different countries. Nevertheless, value for money assessment method has been criticised on numerous grounds with respects to: accuracy of risk transfer; discount rate methodology; limitation scope of non financial and consideration of long term evaluation. For these reasons, the research aim is to draw a complete value for money assessment tool (financial and non-financial aspects) by means of 2 objectives (1) to investigate the criteria to be integrated in the evaluation of PPP bids for value for money, and (2) to identify the elements at each stage of PPP in the value for money assessment process.

Two methods of empirical research via questionnaire survey and case study (semi structured interview) were conducted among PPP stakeholders. In total 216 valid responses were received, constituting a response rate of 23.6%. The result were analysed by descriptive and analytical statistical analysis (ANOVA). In order to underpin the questionnaire survey, three case study were conducted by using structured interview with government body, consultants and contractors.

The results revealed that the nine criteria of Public Private Partnership bids for value for money are: optimum whole life cost; innovation; comprehensive specification,environmental aspects,user benefit, integrated planning and design, fit for purpose, risk allocation and facilities management. In addition, the respondents believed that financial and non-financial aspects are vital elements to be captured in the development of value for money assessment methods at each phase of PPP project life cycle. The research output would facilitate a comprehensive dimenison of VFM assessment tool for PPP projects in Malaysia and provide high significant impact to the government, consultants and contractors as PPP stakeholders.

5.3 Introduction

The public sector underwent an intense period of change in the last two decades particularly in its operations and delivering of services. In both the developed world and emerging economies, the focus of this sector has been fixed on improving efficiency, effectiveness and value for money (VFM) of its projects. Globally, this focus thereby cascaded into the introduction of a more innovative approach known as Public Private Partnership (PPP). PPP is an innovative approach to describe the long term relationship between the public and private sectors in delivering public infrastructure. There are several driving factors that have prompted public sectors to pursue this innovative approach. Principally, two fundamental characteristic of PPP are: transfer of risk to the private sector and the provision of superior VFM for the stakeholders. Undeniably the concept of VFM in PPP is the ultimate goal for most in many developing countries in delivering the public projects. Heald (2003) and Cheung et al. (2009) portray the VFM are the key factors that have been put forward for PPP across the globe.

In general, literary source had scrutinised VFM in PPP as the optimum combination of whole life cost and quality to meet the user's requirement. Basically, VFM can be shown through the accounting quantification and comparison of the cost and benefit of the conventional public sector procurement option with the PPP option. Predominantly, PPP should only be pursued where the projects are expected to represent VFM to the stakeholders. Thus, the assessment of VFM is a fundamental requirement of PPP procurement. To assess the value of all variables involved would require a degree of judgment using both financial and non financial analysis.

VFM assessment is being used extensively across the world but there is still much debate regarding its use. Much of the literature and study on VFM has deliberated on the financial aspects. However there is less attention into how PPP bids are actually evaluated for VFM. It is crucial to distinguish the criteria used to evaluate PPP bids for VFM because PPP performance expectations are normally transformed into binding legal agreements. The criteria are also used to monitor the progress of the PPP contract over its concession of 20-30 years (Morollos and Amekudzi, 2008). According to Broadbent el al. (2003), contracts awarded on the basis of the lowest