

UNIVERSITI TEKNOLOGI MARA

**VALUE FOR MONEY (VFM) ASSESSMENT
FRAMEWORK FOR PUBLIC PRIVATE
PARTNERSHIP (PPP) APPROACH**

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ABSTRACT

In a generic sense, when procuring Public Private Partnership (PPP) projects, value for money (VFM) assessment could be determined through a comparative analysis of contractors' proposals against VFM documentation. Principally, value for money is a broad term that captures both elements of financial and non-financial elements in the evaluation of VFM. Several diverse approaches to assess value for money (VFM) exist and are used in different countries. Value for money assessment methods have 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. Hence, the aim of this study is to develop a complete VFM assessment framework for PPP projects embracing financial and non-financial elements across project phases (i.e., strategy formulation; procurement; construction and operation phase) based on four (4) objectives: to identify the essential factors for PPP implementation; to determine the VFM drivers in PPP projects; to investigate the elements of Public Sector Comparator (PSC) as a VFM assessment framework; and finally to develop a VFM assessment framework for PPP projects. Two methods of empirical research using questionnaire survey and case studies (semi-structured interviews) were conducted with PPP stakeholders. In order to underpin the questionnaire survey, three case studies were conducted using structured interviews with government agencies; consultants and contractors. The VFM assessment framework was validated using semi structured interview approach. The results establish the significant financial and non- financial elements fundamentals in the development of PSC at each stage of PPP life cycle. The results identify five most important financial elements at all the phases of PPP approach. Twelve (12) non-financial elements have been identified for the strategy formulation phase; ten (10) at the procurement phase; eleven (11) for the construction phase and twelve (12) non-financial elements to be integrated in the operation phase. The research outputs seek to facilitate a comprehensive dimension of VFM assessment method for PPP projects in Malaysia and provide significant impacts to the government, consultants and contractors as PPP stakeholders.

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TABLE OF CONTENTS

AUTHORS'DECLARATION	ii
ABSTRACT	iii
ACKNOWLEDGEMENTS	iv
TABLE OF CONTENTS	v
LIST OF TABLES	xi
LIST OF FIGURES	xiv
LIST OF ABBREVIATION	xv
CHAPTER ONE: INTRODUCTION	1
1.1 Background And Justification Of The Study	1
1.1.1 Public Private Partnership (PPP) Implementation	3
1.1.2 Value for Money (VFM) Assessment Process In Public Private Partnership (PPP)	6
1.2 Statement Of The Research Problem	7
1.3 Aim Of The Study	10
1.4 Objectives Of The study	10
1.5 Research Questions	10
1.6 Research Hypothesis	11
1.7 Scope And Limitation Of Study	11
1.8 Research Process	12
1.9 Significance Of The Research	15
1.10 Structure Of The Thesis	16
CHAPTER TWO: PUBLIC PRIVATE PARTNERSHIP (PPP)	18
2.1 Introduction	18
2.2 Definition And Theory Of Public Private Partnership (PPP)	18
2.3 History And Evolution Of Public Private Partnership (PPP)	29
2.4 History And Evolution Of Public Private Partnership (PPP) in Malaysia	35
2.5 The Structure Of Public Private Partnership (PPP/PFI)	39
	v

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND AND JUSTIFICATION OF THE STUDY

This chapter describes the background and justification of the study, including the overall structure of the whole thesis. It introduces the area of discussion; research problems, research aim and objectives. A summary of the research outline and methodology are also presented.

In recent years, governments around the globe have adopted Public Private Partnership (PPP) more extensively than it was the case in the past. As a result, there has been an increasing number of research papers published within this topic by both researchers and practitioners. These include papers on (1) Governance issue (Smyth & Edkinsa, 2007, Chan et al., 2005); (2) Risk management issues (Grimsey & Lewis, 2004, Li et al., 2003); (3) Critical success factors (Aziz el al., 2011, Jefferies, 2006, Akintote et al., 2005). Of recent, researchers Cheung et al. (2010); Joaquim (2010); Sobhiyah et al. (2008); Shoul (2005); English (2005) and Fitzgerald (2004) have carried out investigations in value for money (VFM) in PPP approach. This is obviously due to the realization of the importance of VFM achievement in PPP projects and also due to the debates and critiques on how VFM is being analysed for PPP projects (Khadaroo 2008 and Blanken et al., 2007). Hence, for the following chapters VFM and PPP are denotes as value for money and Public Private Partnership.

Principally, the public sector underwent an intense period of change in the last two decades particularly in its operations and delivery of services. Both the developed world and emerging economies, the public sector are focusing on improving efficiency and effectiveness such as improving service quality and reduce operating cost through innovation. This focus thereby cascaded into the introduction of a more innovative approach known as PPP. PPP is an innovative approach to describe the long- term relationship between the public and private sector in delivering public infrastructure. Theoretically, there are many rationales behind the prompt of PPP implementation. The literature source scrutinized the issues of VFM; risk transfer; innovation; stimulation of economic growth and enhancing the quality of public projects as important factors to be