

International Seminar on  
Strengthening Public Investment and Managing  
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# **Achieving VFM: Perspectives from PPP audits**

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# KEY ISSUES

1. Focus on VFM over PPP lifecycle
2. Need to improve tendering process
3. Impact of design on whole life vfm
4. Benefits of market testing v benchmarking
5. Refinancing/secondary market issues
6. New policy on employee terms and conditions



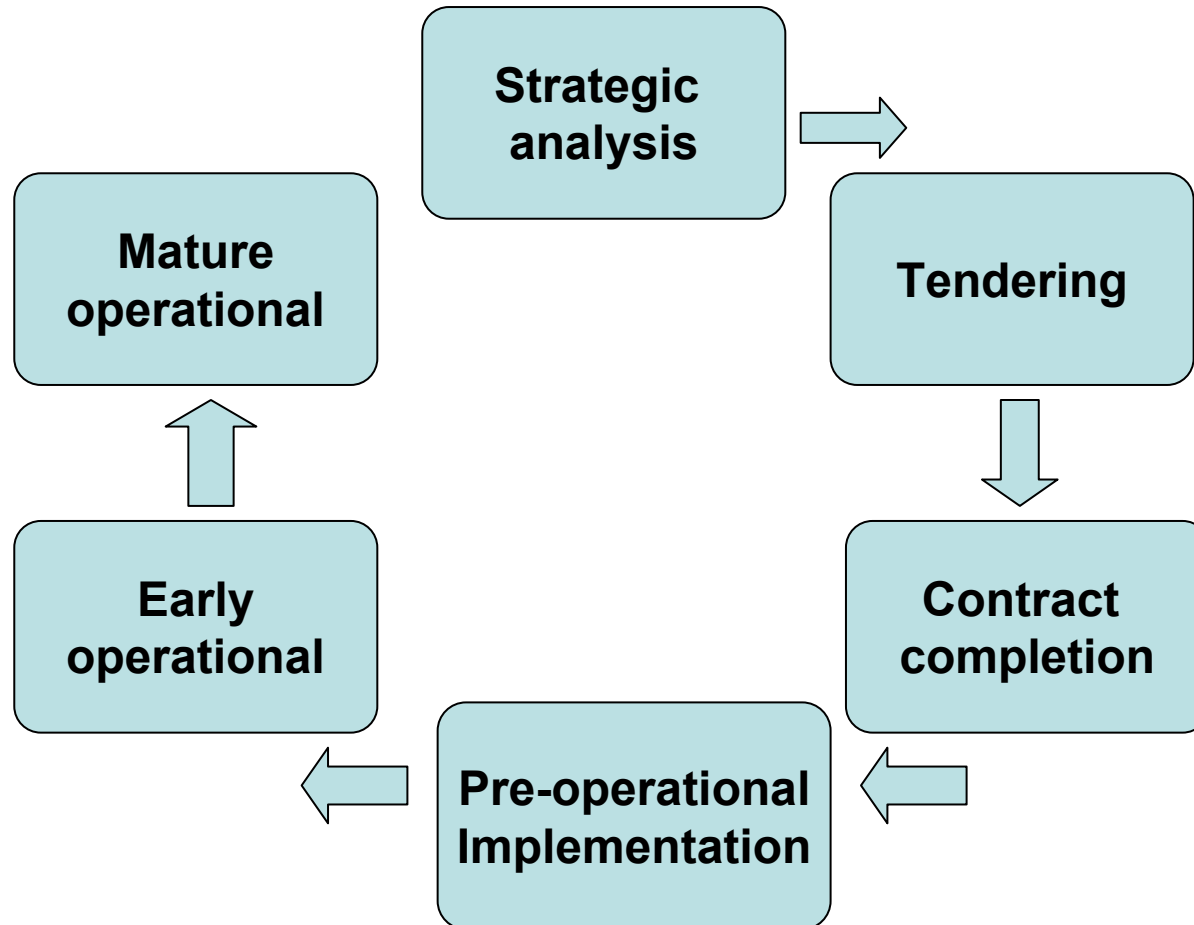
# 1. FOCUS ON DRIVERS OF VFM OVER PPP LIFECYCLE

## Drivers - all stages of a project

- A. Fit with business requirements
- B. An appropriate delivery mechanism
- C. Stakeholder support
- D. Good quality project management
- E. Optimal balance between cost, quality and flexibility
- F. Effective risk allocation and management



# Life cycle of PFI/PPP deals



## 2. NEED TO IMPROVE TENDERING PROCESS IN THE UK

- UK NAO has followed up 2003 PAC findings showing weaknesses
- No improvement between 2004 -2006
- Inadequate knowledge sharing
- Need for comprehensive guidance
- Case for target timetables



### 3. IMPACT OF DESIGN ON VFM

- PPP building design is often, but not always, relatively poor when contractor is not the operator eg English schools
- Time for understanding the business/ user requirements is often squeezed
- Affordability problems/value engineering affects vfm
- More detailed input specifications now being favoured. New guidance awaited.



## 4. BENEFITS OF MARKET TESTING V BENCHMARKING?

- 11 of 550 operational deals have been benchmarked (8) or market tested (3)
- Greater confidence in market testing
- Sometimes benchmarking more suitable
- Recommend bids on both bases
- Average 14 months for market testing
- Average 10 months for benchmarking
- Price increase 0% - 22% proposed,  
-2% - 9% agreed





## 5. REFINANCING/SECONDARY MARKET ISSUES

- Public sector often lacks commercial awareness
- This can lead to high private returns, increased public risks
- A more flexible sharing arrangement may have benefits
- Upfront gains v gains over time
- Impact on public interest of PFI equity sales
- Need for transparency of information



## 6. TERMS AND CONDITIONS OF EMPLOYEES

- Policy development
- NAO survey – overtaken by policy
- Main survey findings
- Different models for protecting employees



## 7. CURRENT VFM ISSUES

- Ensuring vfm throughout lifecycle of a PPP project
- Agree comprehensive guidance and target timetables for tendering process
- More detailed input design specification
- Standardise and offer detailed guidance on value testing
- Possible changes to refinancing/secondary market regime

