PUBLIC-PRIVATE PARTNERSHIP GOVERNING BOARD
Resolution No. 2016-06-05
June 21, 2016

FOR : **All Heads of Departments, Bureaus, Offices, Commissions, Authorities or Agencies of the National Government. Government-Owned and/or Controlled Corporations. Government Financial Institutions, and State Universities and Colleges**

SUBJECT : **GUIDELINES ON ASSESSING VALUE FOR MONEY IN PUBLIC-PRIVATE PARTNERSHIP PROJECTS**

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1. Introduction

1.1. The Government's objective is to attain the most cost-efficient way to deliver services to its citizens. In Public-Private Partnership (PPP), Value for Money (VfM) analysis ensures that infrastructures and services are provided at lower costs and related risks are taken into account.

1.2. Ensuring VfM in the procurement of PPP Projects is a key objective of the Government for achieving sustainable levels of high quality infrastructure development.

2. Objective and Scope

2.1. These Guidelines aim to institutionalize VfM analysis in PPP projects.

2.2. VfM assessment shall cover all PPP projects.

3. Definition of Terms

3.1. Value for Money – the optimum combination of whole-of-life costs and quality (or fitness for purpose) of the good or service to meet the user's requirement. VfM is not the choice of goods and services based on the lowest cost bid. To undertake a well-managed procurement, it is necessary to consider upfront, and at the earliest stage of procurement, what the key drivers of VfM in the procurement process will be.

3.2. Whole-of-Life Cost or Life Cycle Cost – the total cost of the project over the concession period or the total cost of owning an asset over the entire project life.

3.3. Net Present Cost (NPC/NPV) – the sum of the present values of incoming and outgoing cash flows over a period of time.

3.4. Public Sector Comparator (PSC) – a major component of VfM analysis. It is a hypothetical, risk – adjusted cost estimate of a project where the project is to be financed, owned, and implemented by the public sector.

4. Applicability

4.1. Implementing Agencies (IAs) shall conduct VfM analysis on their PPP projects as an integral part of their feasibility assessment. VfM analysis should be applied to PPP projects at the project development stage to determine the appropriateness of undertaking them as PPPs and for assessing whether they provide better VfM in comparison to the traditional public procurement option.

5. General Principles

5.1. VfM analysis of PPP Projects determine the procurement approach that provides the maximum benefit for the government which could include benefits from private sector innovation, financing, efficiencies in construction and operations and project risk transfer.

5.2. VfM analyzes future cash flows to determine whether an infrastructure project is best suited to a traditional public-procurement option or a PPP option by measuring relative benefits of the two options in Net Present Cost/value terms.

5.3. In assessing VfM, consideration should be placed on both the quantitative and qualitative assessments. The quantitative assessment focuses upon the costs of procuring a project under different procurement options. The qualitative assessment focuses upon the benefits one procurement option may provide over and above the alternative. It consists of identifying and assessing unquantifiable factors which may also be considered in the procurement option decision (e.g. earlier availability of the service, improved service quality, higher environmental performance, innovation).

5.4. The IAs shall have the primary responsibility of determining the VfM for PPP projects, in accordance with Section 4.5(b) of PPPGB Policy Circular No. 01-2015 on Guidelines and Procedures for the Appraisal of PPP Projects, as may be amended/updated.

5.5. The quantitative process of determining VfM in PPP Projects shall be based on project specific considerations to be determined by the IAs. For determining the Whole-of-Life Costs for a traditional government procurement option, the following aspects may be considered, among others:

i. Estimated Whole-of-Life Cost of traditional government procurement (Raw PSC) by the IAs on a best effort basis (e.g., scope, timelines, maintenance requirements and costs shall be the same with the PPP project);

ii. Estimated value of cost of benefits that is available only to the government (e.g., exemption from taxes);

iii. Estimated value of project risks transferred by the government to the private sector in case of a PPP option (e.g., construction risks); and

iv. Estimated value of project risks retained by the government, irrespective of the procurement option chosen (e.g., regulatory risks).

A summation of (i - iv) above will provide the Public Sector Comparator (PSC).

5.6. The PPP project option will entail development of a Shadow Bid which is the estimated Whole-of-Life Cost of a likely private sector bid that may be received by the government if the project is structured and bidded out as a PPP. The estimated PSC and the Shadow Bid will be discounted using the prevailing Government Borrowing Rate to arrive at the NPC/NPV of the two procurement options. A comparison of the Whole-of-Life Cost of a Shadow Bid with the traditional government procurement option will determine the option with the best VfM. The procurement approach that would provide the best VfM for the government will be selected as the preferred procurement option.

5.7. Although the above quantitative assessment constitutes a significant portion of the VfM analysis, it is not the sole factor driving the VfM of the project. There are factors that cannot be quantified in monetary terms; hence, qualitative factors may be considered in the VfM analysis. The qualitative factors may include, but not limited to, the following: Competition, Innovation, Service delivery outcomes, appropriateness of Risk Sharing, User satisfaction, etc.

5.8. IAs shall start compiling cost data for projects procured using the traditional government procurement to facilitate VfM analysis. Where sufficient data/information is not available with the IAs for determining the Raw PSC, appropriate efficiency factors on a project-to-project basis may be used to determine such costs based on past experience of the IAs in procuring similar projects. The PPP Center shall undertake a capacity building program to assist the IAs in the conduct of the VfM analysis and development of database.

6. Effectivity

6.1. These Guidelines shall take effect upon approval by the PPP Governing Board.

I hereby certify that these guidelines were approved by the PPP Governing Board at its meeting held on June 21, 2016, and subsequently renamed[1] and renumbered[2] by virtue of PPP Governing Board Resolution No. 2018-03-07 which was approved on March 22, 2018.

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[1] Renamed to "Guidelines on Assessing Value for Money in Public-Private Partnership Projects";
[2] Deleted the phrase "Policy Circular No. 09A-2016" in the title and renumbered with the corresponding PPPGB resolution number.