CROWN AGENTS
ACCELERATING SELF-SUFFICIENCY & PROSPERITY

Financial Management of Development Projects
21 May 2019

VALUE FOR MONEY ASSESSMENTS

Session Introduction

Session Aim

- Define value for money and examine the use of value for money assessments to improve project outcomes

Session Learning Objectives – by the end of this course, you will be able to:

- Define value for money and understand its impact on fiduciary risk
- Outline how to carry out a value for money assessments
- Design projects to incorporate value for money considerations

Session Agenda

Our Learning Journey – how we will achieve our objectives:

1. Define Value for Money
2. Identify critical value for money questions
3. Show how these relate to project design
4. Introduce the 3 Es as a framework for designing value for money assessments and audits
5. Session close

Fiduciary risk

"fiduciary risk as the risk that funds are not used for the intended purposes; do not achieve value for money; and/or are not properly accounted for. The realisation of fiduciary risk can be due to a variety of factors, including lack of capacity, competency or knowledge; bureaucratic inefficiency; and/or active corruption"

- DFID definition

Fiduciary risk management

- *Understanding* the fiduciary risk environment
  - DfID – Fiduciary Risk Assessment
  - World Bank tools
    - Country Financial Accountability Assessments (CFAA)
    - Country Procurement Assessment Reports (CPAR)
    - Country Policy and Institutional Assessment (CPIA)
- *Mitigating risks* that have been identified
  - Funding mechanisms (budget support vs direct project funding)
  - Strengthening PFM systems (internal controls)
  - Anti-corruption measures
- *Monitoring performance*

VFM

What is value for money?

$60 million budget

Requirement: 3000 kilometers of B-road in Uganda

Statement of requirement does not specify required road surface

Which contractor is offering the best value for money?

Contractor 1
Asphalt Road
$10,000/km

Contractor 2
Concrete Road
$15,000/km

Contractor 3
Gravel Road
$30,000/km

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What is Value for Money?

"The optimum combination of whole-life costs and quality to meet the user's requirements

HM Treasury (2006) 'Value for Money Assessment Guidance

Value for Money: Key Questions

Who is the Customer/Beneficiary?

What are their requirements?

Defining Project Requirements

In Government, project requirements typically derive from national/departmental strategy

National Development Plans and Priorities

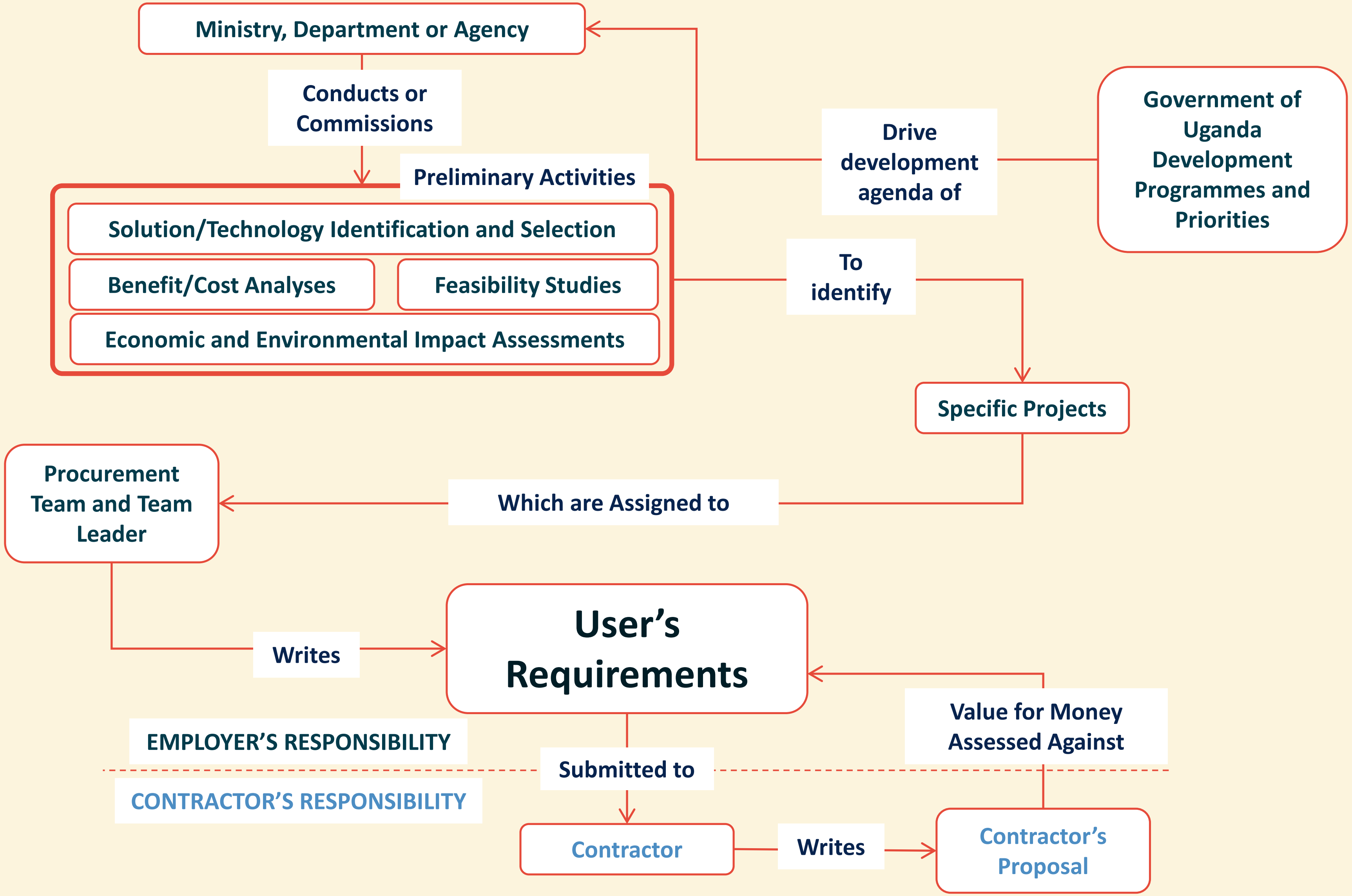
Development of Departmental Strategies

Identification of required Outputs/Benefits

Design of Projects to achieve Outputs/Benefits

Requirements

The value of public projects must be measured against appropriately derived requirements.

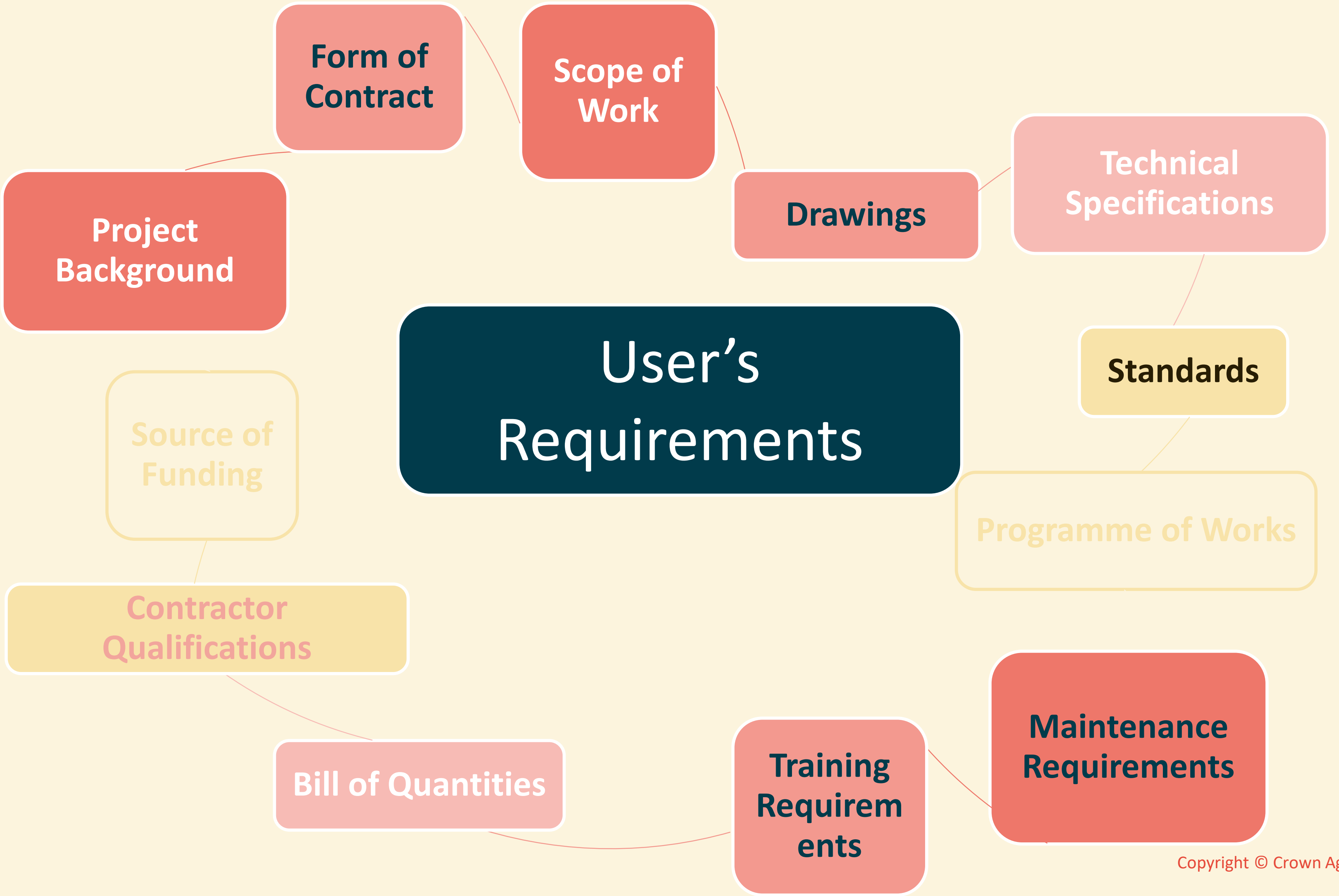

Ministry, Department or Agency
Conducts or Commissions
Preliminary Activities
Solution/Technology Identification and Selection
Benefit/Cost Analyses
Feasibility Studies
Economic and Environmental Impact Assessments
Drive development agenda of
Government of Uganda Development Programmes and Priorities
To identify
Specific Projects
Which are Assigned to
Procurement Team and Team Leader
Writes
User's Requirements
Value for Money Assessed Against
EMPLOYER'S RESPONSIBILITY
Submitted to
CONTRACTOR'S RESPONSIBILITY
Contractor
Writes
Contractor's Proposal

For Civil Works and Physical Infrastructure Projects requirements are stated as:

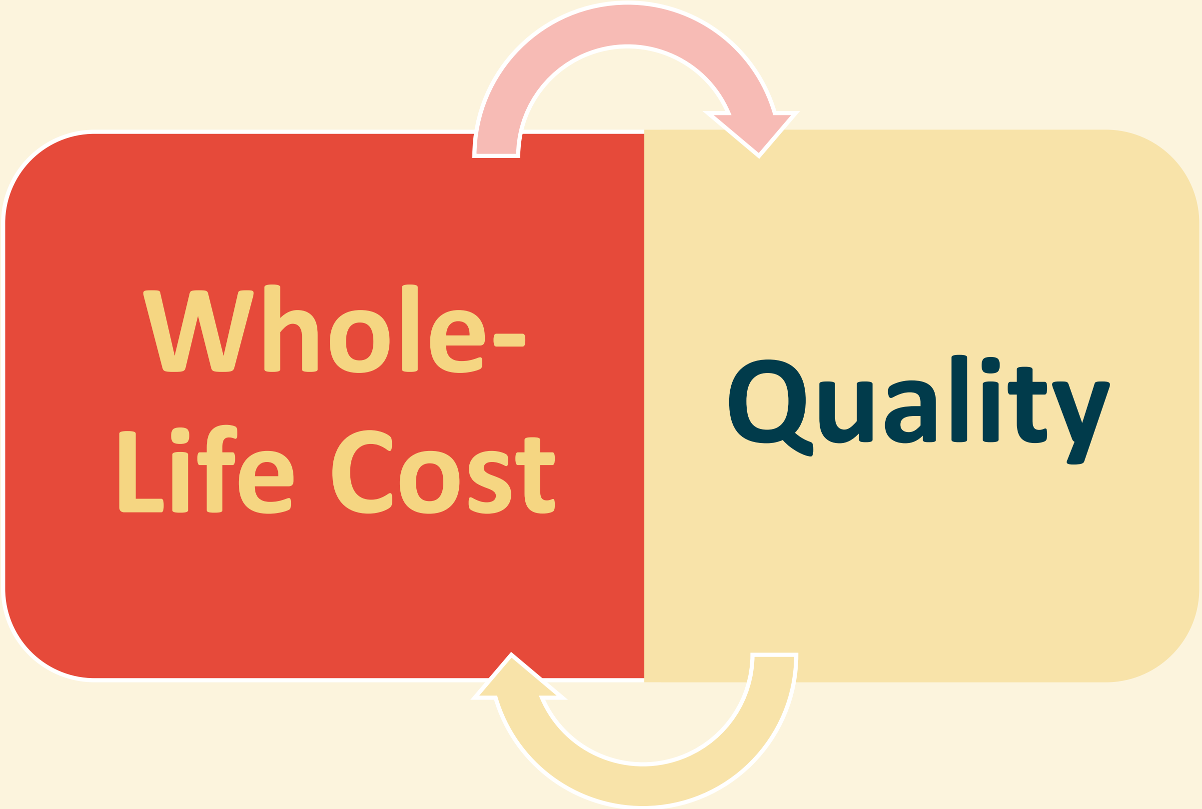
The [User's] Requirements

"The Contractor shall design, execute and complete the Works in accordance with the Contract, and shall remedy any defects in the Works. When completed, the Works shall be fit for the purposes for which the Works are intended *as defined in the Contract*."

FIDIC Conditions of Contract for Works (Yellow Book and Silver Book), Clause 4.1


User's Requirements
Form of Contract
Scope of Work
Drawings
Technical Specifications
Standards
Programme of Works
Maintenance Requirements
Training Requirem ents
Bill of Quantities
Contractor Qualifications
Source of Funding
Project Background

Balancing Whole-Life Cost and Quality



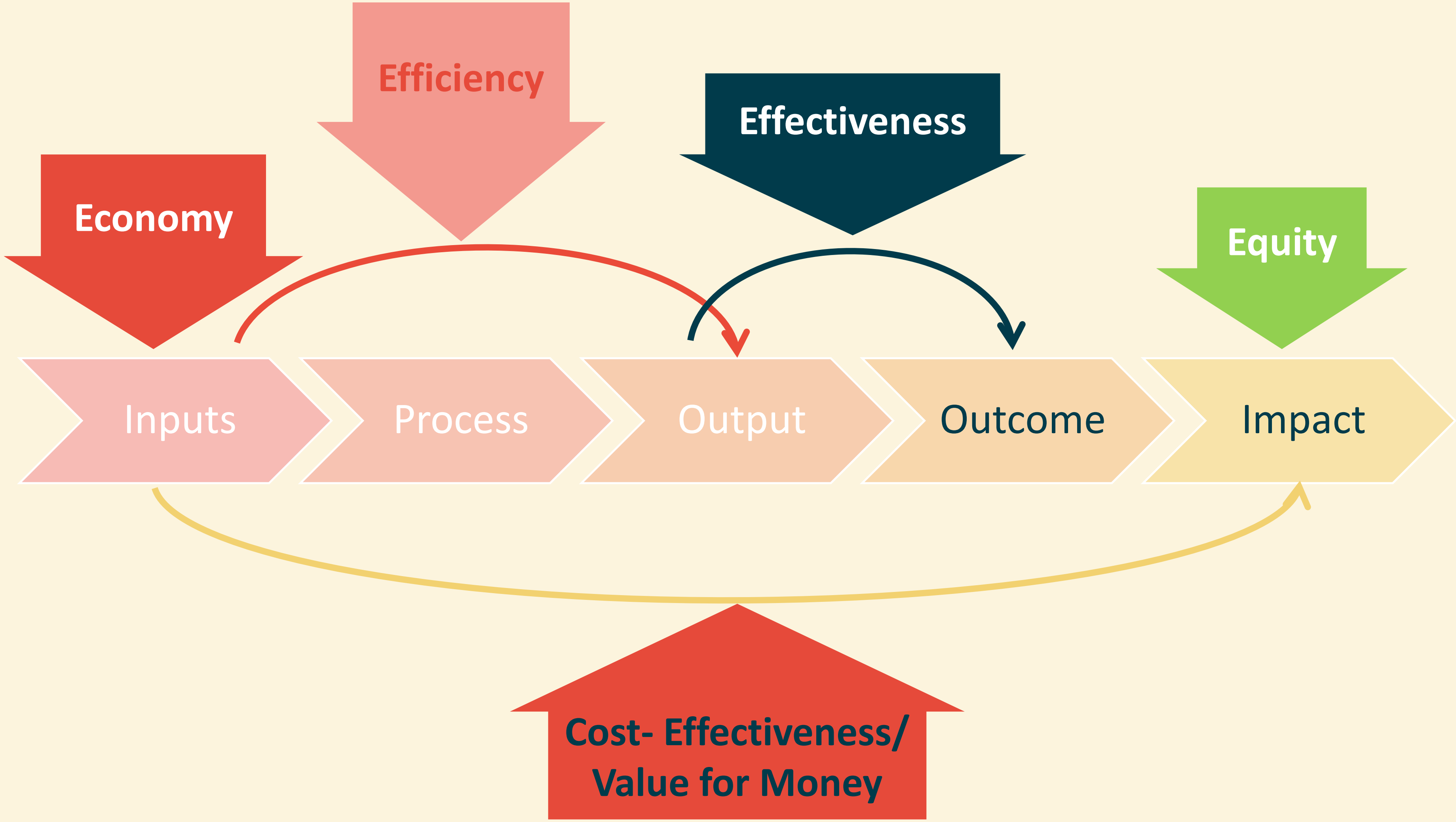
Introducing the 3 Es

Value for Money

(National Audit Office, UK Government):

'VFM is about obtaining the maximum benefit over time with the resources available. It is about achieving the right local balance between economy, efficiency and effectiveness, or, spending less, spending well and spending wisely to achieve local priorities'

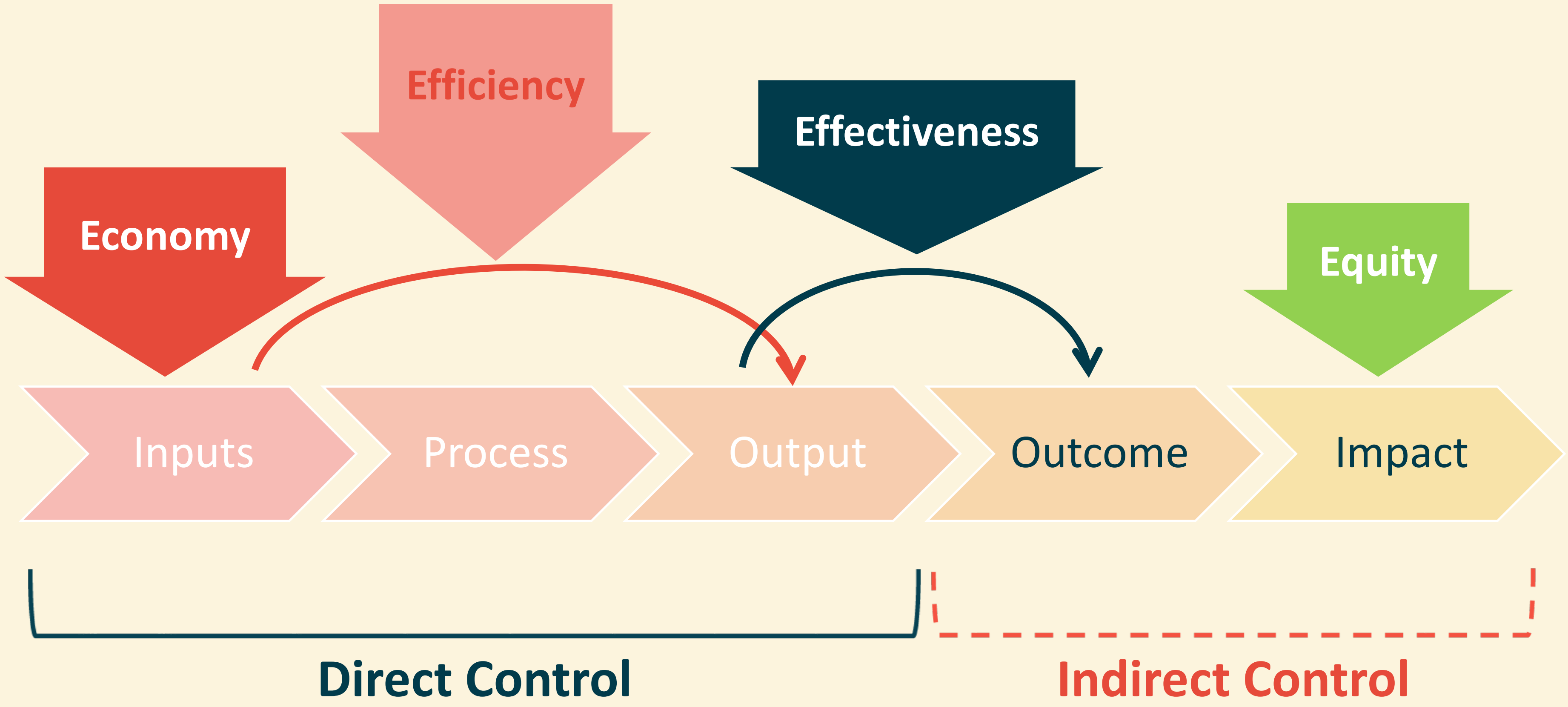
The 3 Es + 1: A Basis for Deriving VFM Audit Indicators



3 Es + 1: Definitions

1. **Economy** Are we buying inputs of the **appropriate quality** at the **right price**? (Inputs are things such as staff, consultants, raw materials and capital that are used to produce outputs)
2. **Efficiency**: How well do we convert inputs into outputs? (outputs are results delivered by to an external party for which we exercise strong control over the **quality** and **quantity** of outputs)
3. **Effectiveness**: How well are the outputs from an intervention achieving the desired **outcome** on poverty reduction? (We cannot exercise direct control over outcomes – in contrast with outputs)
4. **Equity:** How evenly is the **impact** distributed among the beneficiaries?
5. **Cost-effectiveness**: How much **impact** on poverty reduction does an intervention achieve relative to the inputs that we invest in it?

The 3 Es + 1: Project Control



Session Objectives (Recap)

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References

HM Treasury (2006) 'Value for Money Assessment Guidance'

(Accessed online 18/6/15: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/252858/vfm_assessmentguidance061006opt.pdf)

The Scottish Government (2011) 'Value for Money Assessment Guidance: Capital Programmes and Projects '

(Accessed Online 18/6/15: http://www.scottishfuturestrust.org.uk/files/publications/Value_for_Money_Assessment_Guidance_-_Capital_Programmes_and_Projects_(October_2011).pdf)

Session close

Let’s wrap up the session:

- Recap of key learning
- Final questions?
- Revisit session objectives – achieved?
- Application of learning – update your action plans
- What’s next?

THANK YOU /

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