

Infrastructure and Capital Works Procurement and Value Optimisation

Value for Money

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The concept of 'value for money' and how to achieve it in complex projects

- In the news – why we need approaches like VM
- Recent Value Management applications
- Australian Standard approaches to seeking best value for money
- Measuring value for money
- How complexity affects value for money

In the news – why we need approaches like VM

- New warship fleet to be built in South Australia
- Renewable energy projects – electricity prices
- Mining projects on hold as iron ore prices tumble
- Proposed new light rail schemes for Sydney and Canberra

Where does “value for money” fit into decisions about these matters – and how do we know when when we’ve got it?

Personal examples of recent Value Management applications

- A new national LNG plant - A multi billion dollar decision as to which site offers best value for money (after detailed cost benefit analysis had been done)
- New port facilities - (multi billion dollar project) – selection of best value for money infrastructure option
- Civic Centre Redevelopment – selection of best value for money option from three potential options

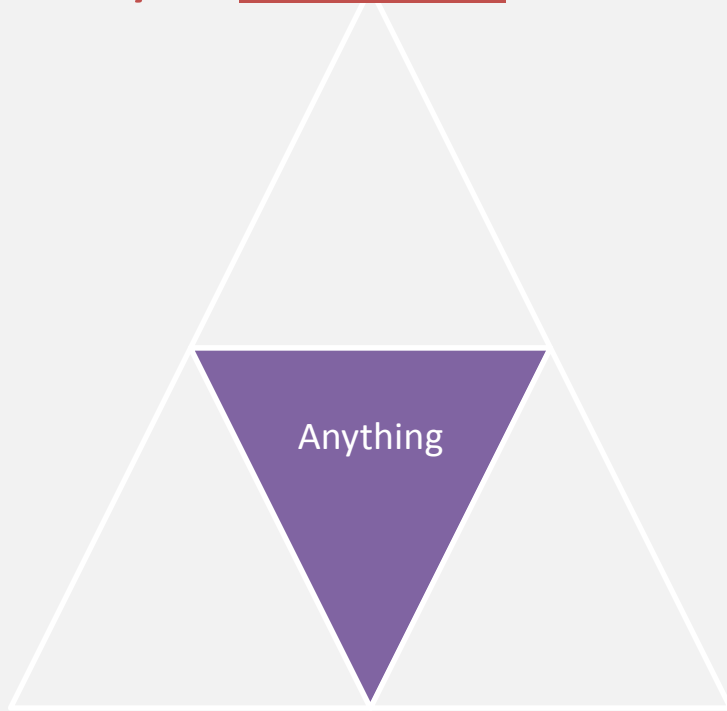
Recent examples of Value Management applications

- New integrated rail and bus stabling and maintenance facility (multi-billion dollar) – seeking options to improve value for money
- Major federal/state-funded road infrastructure (multi-billion dollar) – selection of route options that provide best value for money
- New hospital planning and design - establishing value for money principles and seeking value for money improvements as the design and construction proceeded

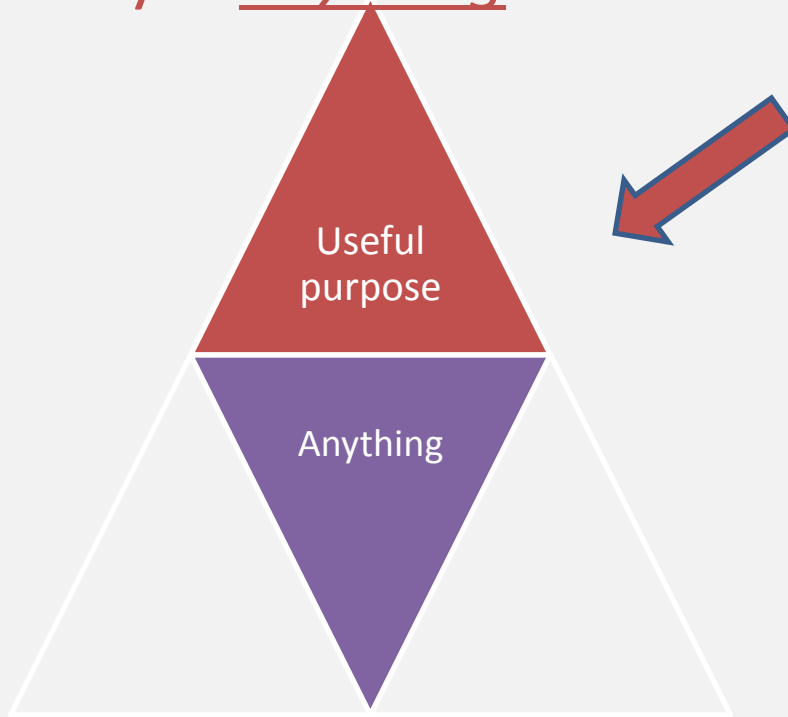
The terms 'value' and 'value for money' are used in so many different ways with so many potentially different meanings and there are always numerous views about why a particular entity has 'value'.

The Australian Standard on Value Management seeks to provide a common language, as well as a consistent process to achieve better value for money.

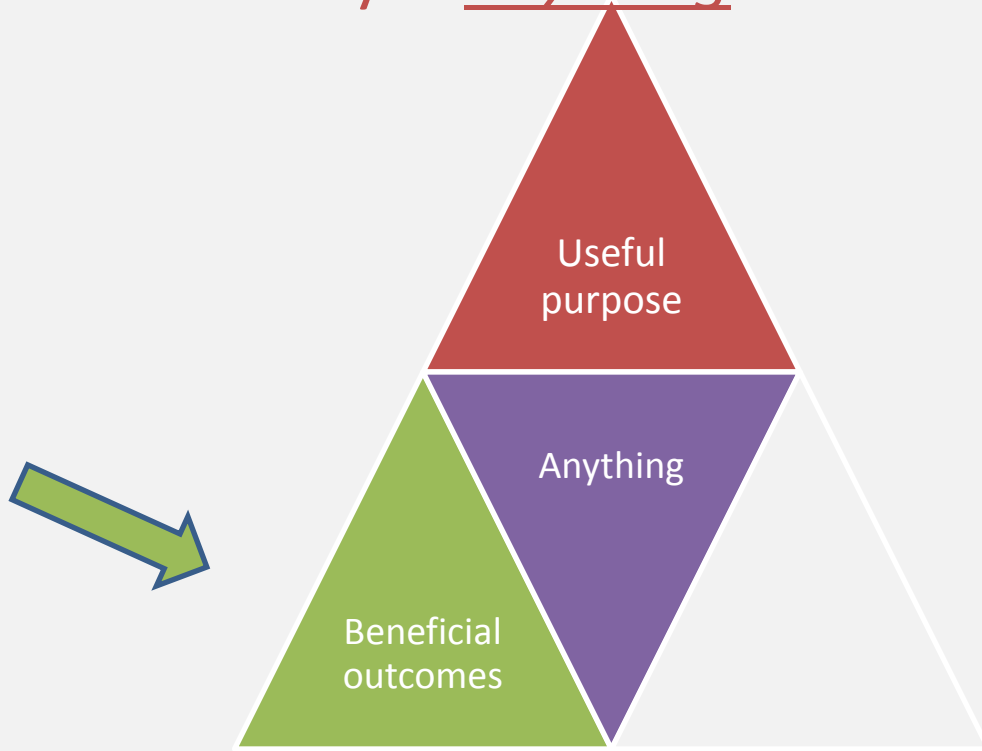
Why is anything of Value?



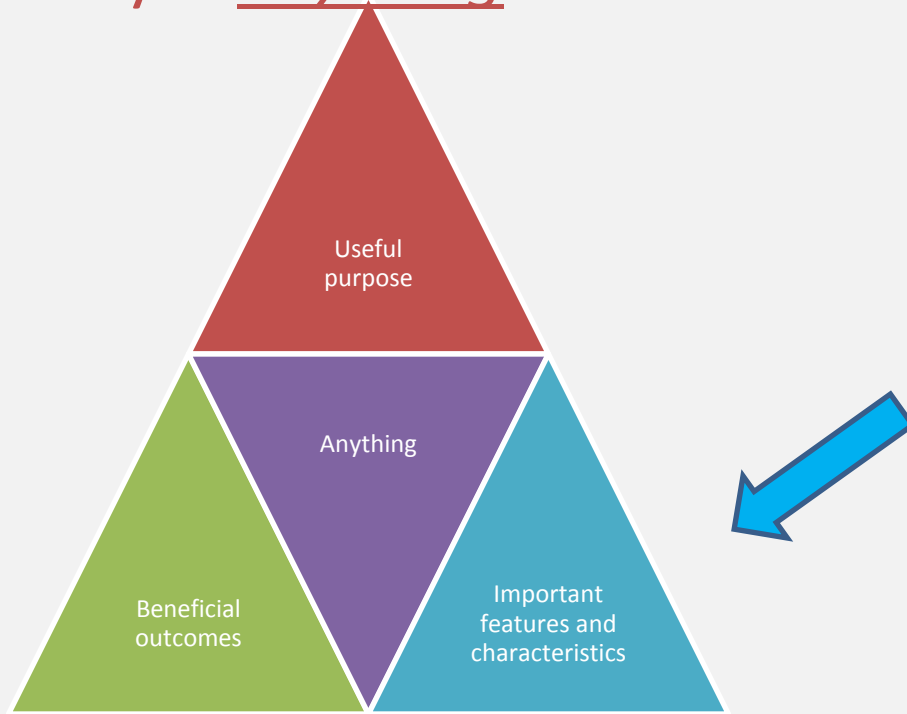
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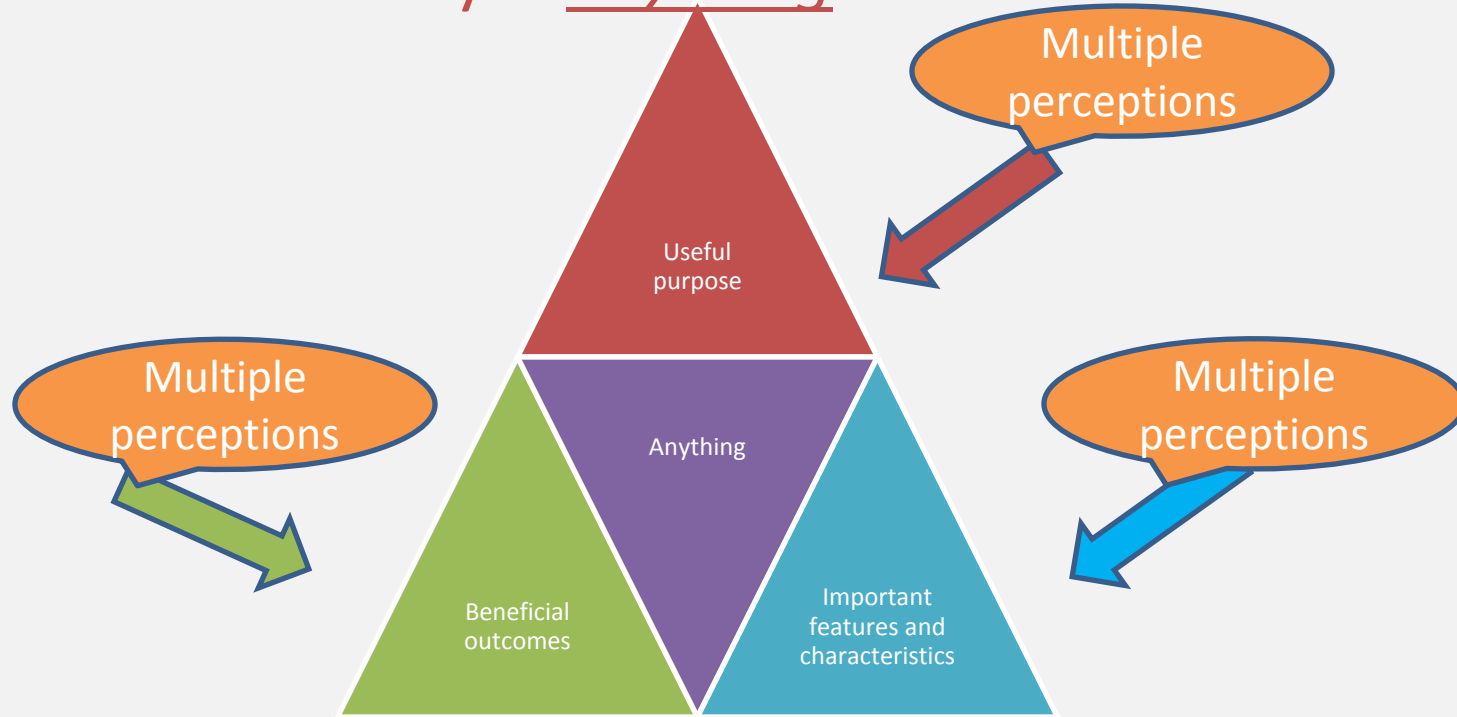
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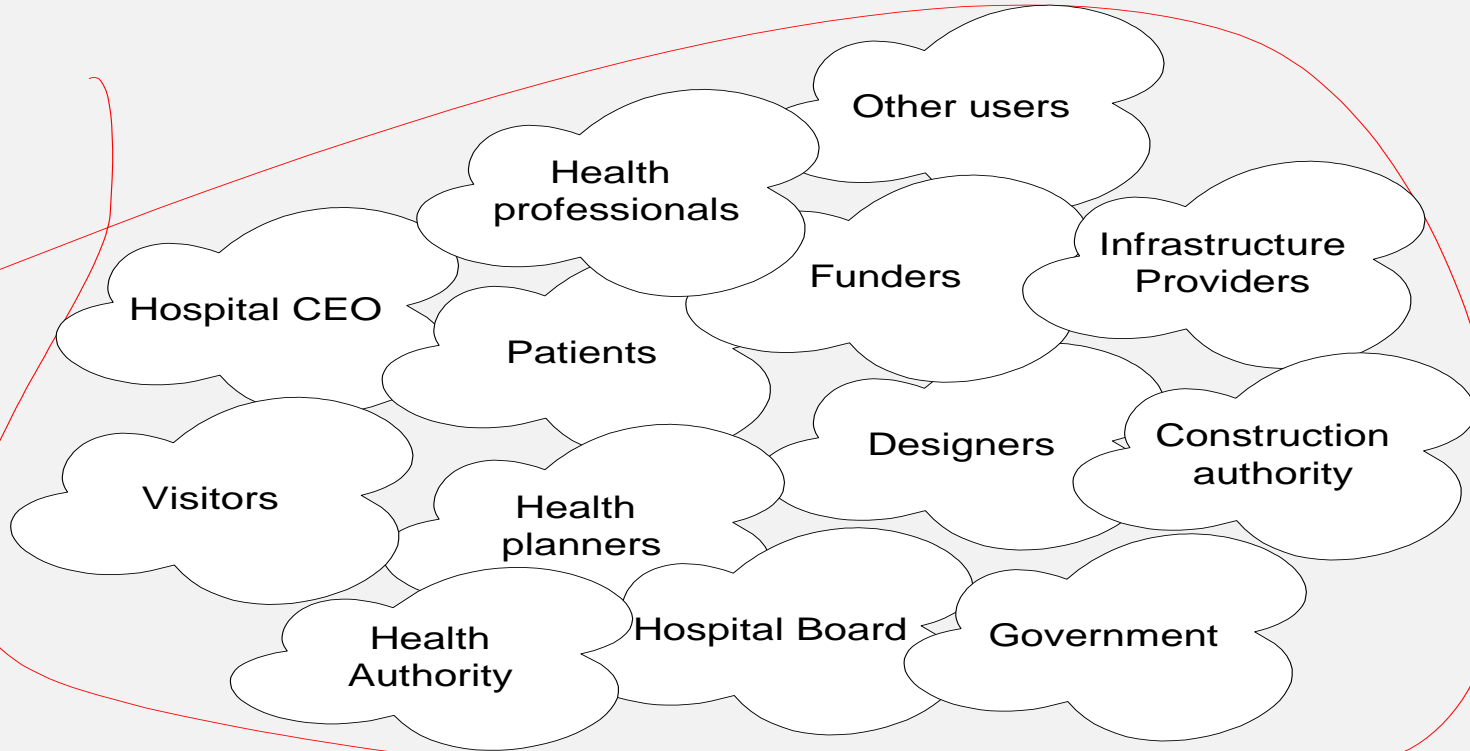
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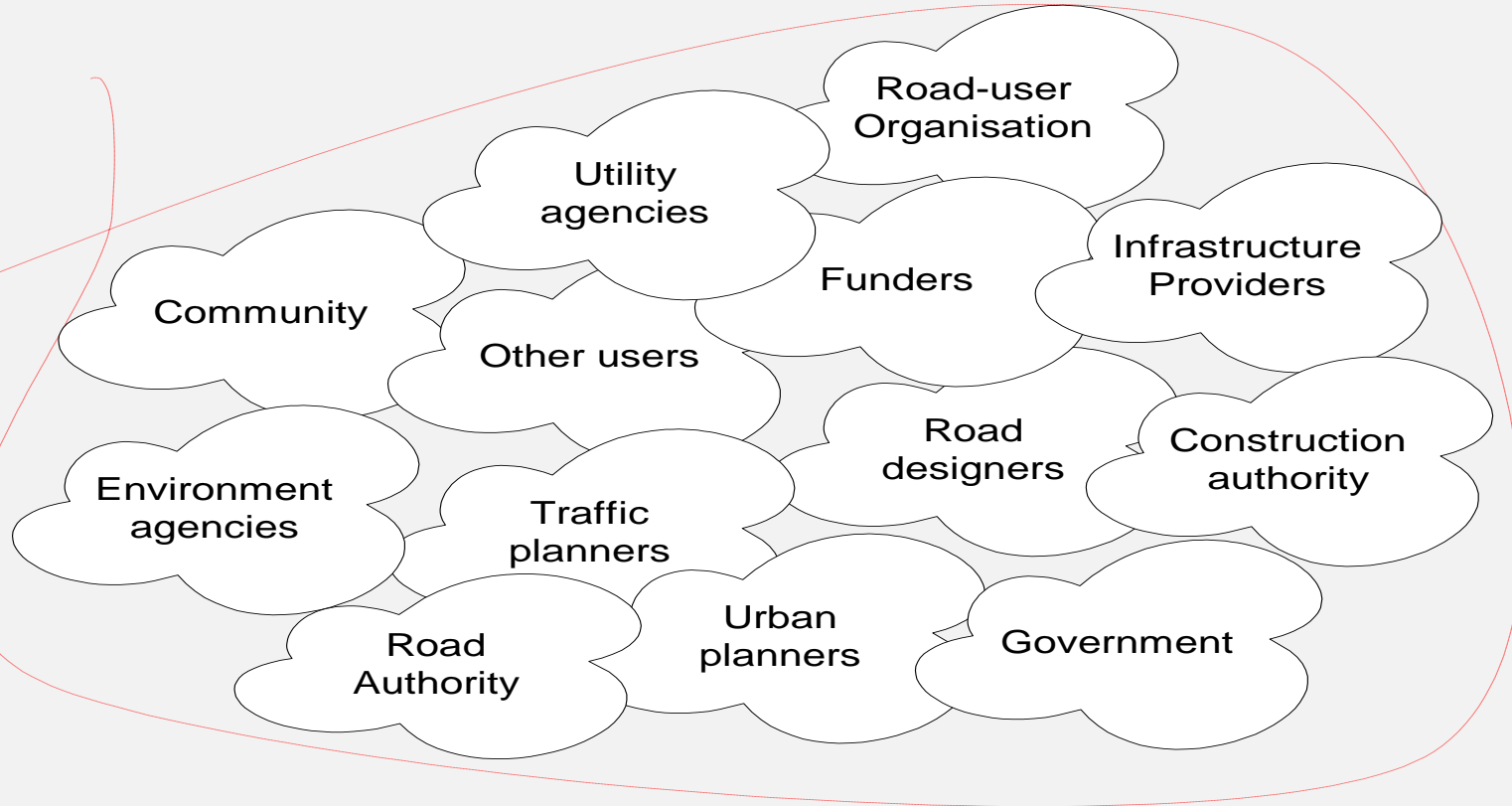
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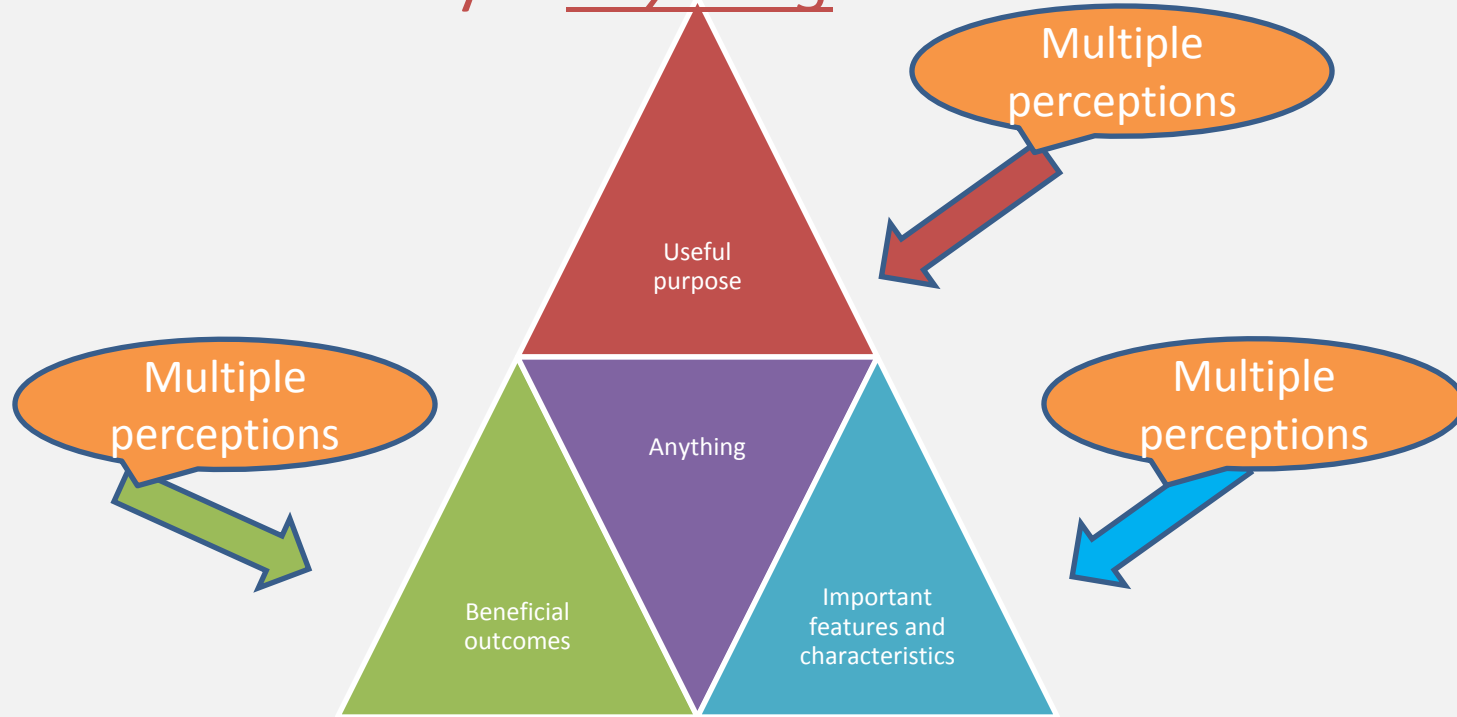
A group of stakeholders for a hospital project



A group of stakeholders for a road project



Why is anything of Value?



*We refer to these as the “value factors”.
Collectively, these factors form the “value statement”*

In defining value for money for any infrastructure investment, we need to get the stakeholders together to produce a Value Statement and develop shared knowledge and understanding of requirements



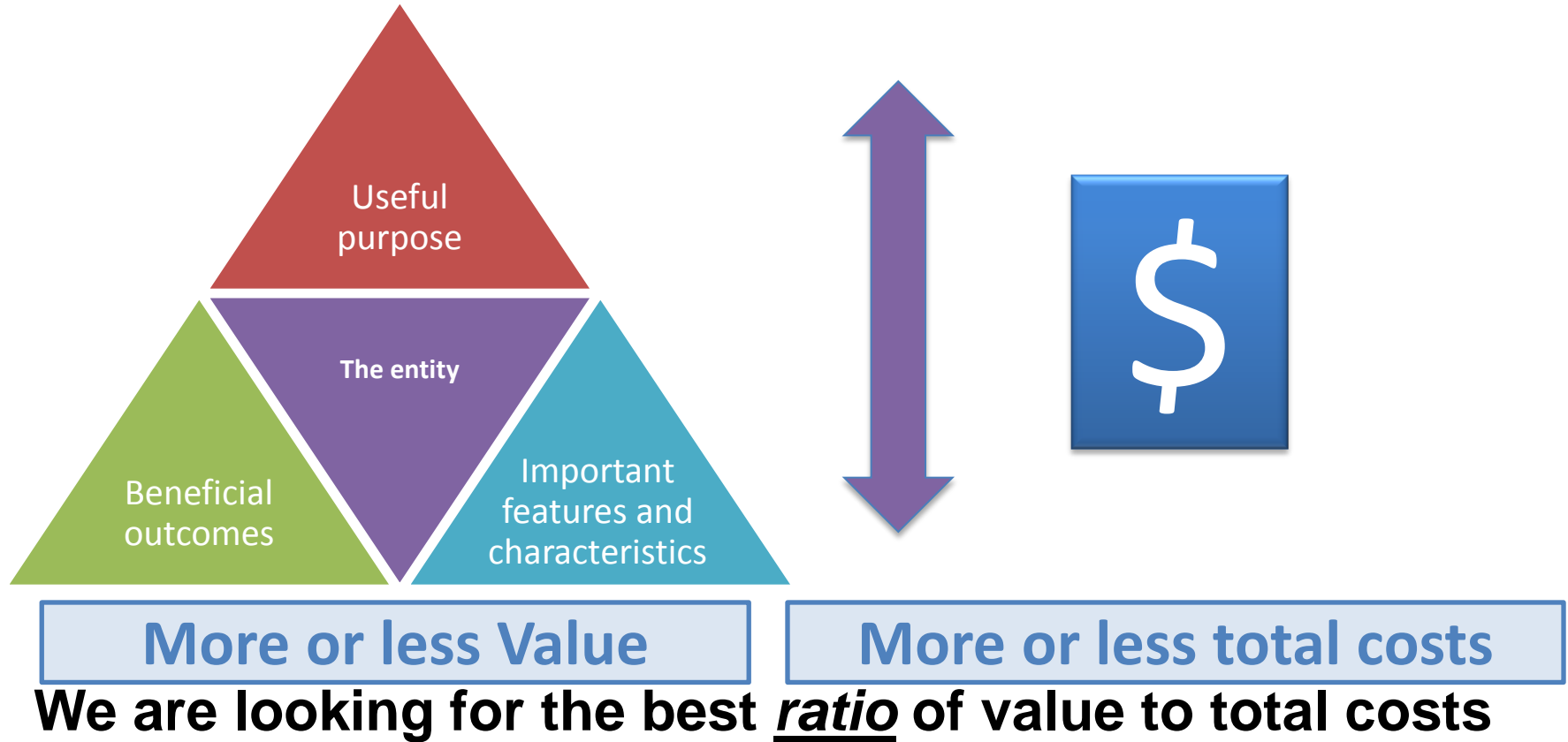
We recognise that “value” and “value for money” are not the same thing and, therefore, we treat them separately

Value

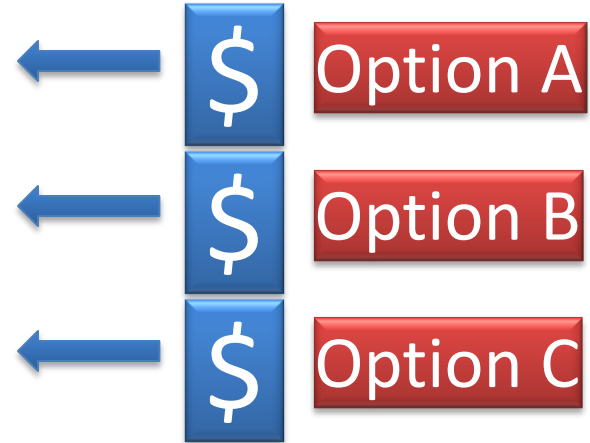
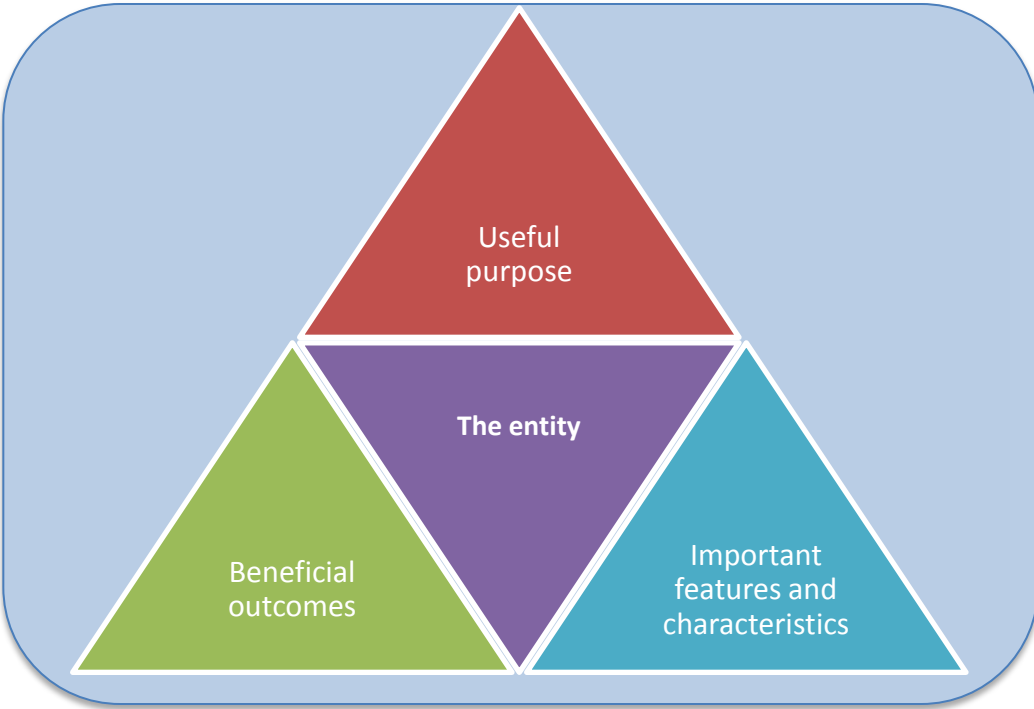
The value of an item must not be based on its price but rather on the utility which it yields

Bernoulli, D. (1738)

Compare each option on the basis of:



Value for money



Value

for

Money

Value for money

Value for money is a **performance measure** – just like any other performance measure

It is based on the **extent of value** provided for the **amount of money** expended, among **competing options**

There are two essential elements in making decisions about value for money:

- 1. Judgement*
- 2. Comparison*

Building Shared Knowledge and Understanding

The single most-important factor in achieving best value for money is building *shared knowledge and understanding* of purpose, requirements and constraints amongst disciplines and stakeholder groups.

This typically requires a change of culture – not just a change of process.

A culture of listening and learning – a culture of always seeking alternatives and making judgments about best value for money

Two major sources of loss of value for money in any infrastructure investment

- Ineffective interactions
- Incomplete information

Value Management

VM provides an approach – a way of thinking – a structure – a common language – to help achieve best value for money.