

International Seminar on
Strengthening Public Investment and Managing
Fiscal Risks from Public-Private Partnerships

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PPP Accounting and Reporting Issues

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Current Approaches to Accounting and Reporting



- There is not a general accounting and reporting standard for PPPs.
- Existing standards (e.g., ESA 95 and GFSM 2001) cover:
 - cash payments by and to government;
 - the transfer of PPP assets to government; and
 - called guarantees.
- Accounting standards for leases are also relevant to PPPs.

Financial Lease Approach



- A distinction is made between operating and financial leases.
- The substance of a PPP transaction may suggest that it should be treated as a financial lease.
- If risk transfer to a private partner is limited, the government can be regarded as the owner of a PPP asset, which it is assumed to obtain under the terms of a financial lease.
- This is the approach to PPP accounting in Australia and the United Kingdom.
- It requires a judgment about the ownership of a PPP asset based on the distribution of risks (and rewards).

Accounting for Limited Risk Transfer



- Under the financial lease approach, PPP assets are recorded on the government balance sheet matched by a lease liability.
- Associated transactions are recorded in the operating statement.
- PPP net asset value builds up slowly on the government balance sheet, but:
 - The basis on which the private sector uses the asset is unclear;
 - Government and private sector accounting is not symmetric; and
 - The fiscal accounts contain many imputed items.

Eurostat Decision



- PPP assets should be off the government balance sheet if the private partner bears most construction risk, and either most availability risk or most demand risk.
- Since the private sector typically bears construction and availability risk, most PPP assets are likely to be off balance sheet.
- However, for services supplied to the government, it will bear most demand risk.
- There are also many other PPP risks.
- For on balance sheet PPPs, PPP investment is recorded as public investment.
- The accounting implications are the same as for a financial lease.

The Main Concern



- PPPs are chosen to move public investment off budget and debt off the government balance sheet, yet the government still bears considerable risk and can face large fiscal costs.
- This could result in PPPs being tailored to off-budget treatment, especially under tight fiscal constraints, including by giving up value for money.
- The Eurostat decision is being applied in a context where governments are trying to reduce fiscal deficits and debt to meet Maastricht/SGP targets.
- Bad PPPs could end up driving out good ones.
- Proper accounting and reporting of the fiscal implications of PPPs can help to make increased efficiency their main motivation.

An Alternative Approach



- Classifying PPP assets as government or private sector assets does not do justice to the fact that PPPs are designed to share risk according to which party can manage it best.
- Ideally, the fiscal costs and risks associated with PPPs, which derive mainly from an obligation to make future service payments and to honor called guarantees, should be assessed, quantified and disclosed.
- Either a larger flow of future public spending or a larger stock of government liabilities can be reported.
- Disclosure can substitute for or complement the financial lease/Eurostat approach.
- Where PPP and/or guarantee programs are large, a comprehensive statement on these programs should be part of the budget documentation.

Managing PPP Costs and Risks



- The alternative approach relies on transparency as the disciplining mechanism to control possible misuse of PPPs.
- Where the costs of misuse could be high, as is likely when a country has a weak fiscal position, disclosure may not be sufficient. In such cases:
 - PPP costs and risks borne by the government should be taken into account when analyzing debt sustainability.
 - It may also be prudent under certain circumstances to limit the size of a PPP program.



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