

In Brief

*A plain and simple overview of the
Public Private Partnerships Statement of Principles*

This is an overview of the key principles developed in PSAB's Statement of Principles, Public Private Partnerships.

Project objectives:	This Statement of Principles proposes new requirements for recognizing, measuring and classifying infrastructure procured through a public private partnership.
The project stage:	PSAB issued this Statement of Principles in August 2017 and is currently seeking public comment on it.
Next steps:	The feedback PSAB receives will guide it in developing an exposure draft that establishes accounting requirements for public private partnerships.
Comment deadline:	The Statement of Principles is open for public comment until October 17, 2017.
How to respond:	Respondents are asked to submit their comments electronically via an online response form or sent via Word document to info@psabcanada.ca . All comments will be a matter of public record and will be posted online at www.frascanada.ca .

In Brief

A plain and simple overview of the Public Private Partnerships Statement of Principles

Why PSAB Undertook this Project

The robust principles developed are the first step in creating consistent accounting outcomes regardless of procurement model.

– Bailey Church,
Task Force Chair

There are over 250 public private partnership projects in Canada with capital investment of more than \$100 billion.

Public private partnership projects include highways, bridges, light rail transit, hospitals, schools and water-treatment facilities.

Public private partnership models are unique, so PSAB stakeholders have asked for an accounting standard that addresses them.

The principles proposed by PSAB enable users of financial statements to make more informed decisions by:

- interpreting existing asset recognition requirements and applying them to infrastructure acquired through a public private partnership;
- developing clear principles for recognizing a liability versus revenue; and
- identifying how to measure the resulting infrastructure asset and liability.

In Brief

A plain and simple overview of the Public Private Partnerships Statement of Principles

What public private partnership transactions are impacted by these proposals?

There is a gap in the existing PSA Handbook that is filled by the proposed guidance in this Statement of Principles.

What is a public private partnership?

In scope public private partnerships include a public sector entity that obtains infrastructure using a private sector entity as a partner. The private sector entity has obligations in this type of partnership, which include a requirement to:

- build, acquire, improve or refurbish;
- finance; and
- maintain and/or operate the infrastructure.

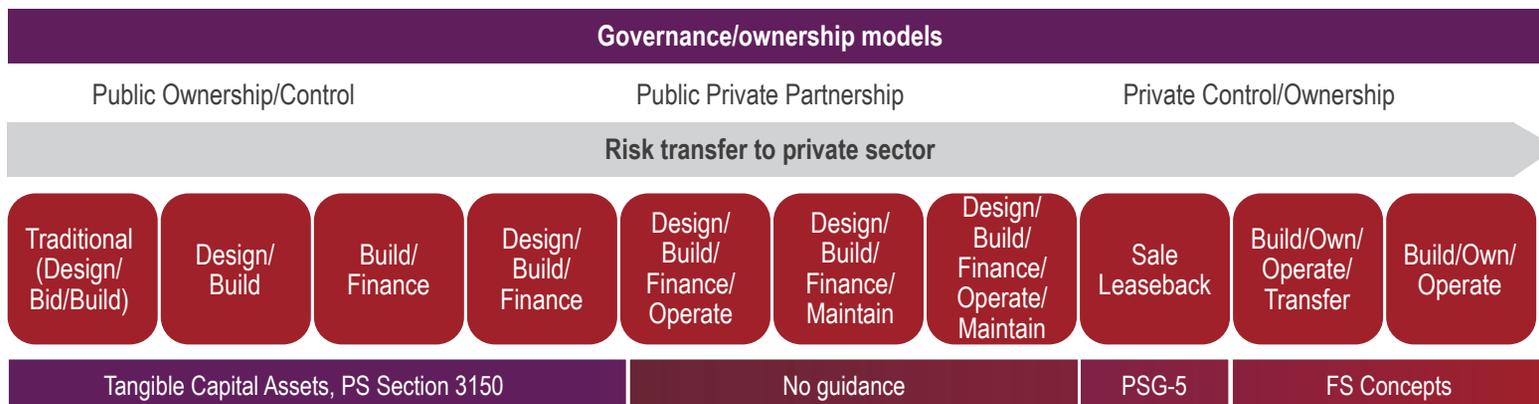
There are many different public private partnership delivery models

Depending on a public sector entity's requirements, there are a wide range of public private partnership delivery models that exist.

Each model involves the private sector entity in various phases of a project, such as design, build, finance, operate and maintain.

In developing this Statement of Principles, PSAB ensured it addressed an existing gap in the PSA Handbook. See Figure 1 below for more information.

Figure 1: Guidance of other projects



Source: Modified from PPP Canada, [P3 Business Case Development Guide](#), January 18, 2016

When should infrastructure be recognized?

When a piece of infrastructure like a road is operated and/or maintained by the private sector entity, determining who actually controls the infrastructure is challenging.

The challenge

When a piece of infrastructure like a road is operated and/or maintained by the private sector, determining who actually controls the infrastructure is challenging.

Who controls the economic benefits of the road needs to be determined, which can be difficult when a private sector entity is making decisions on how to maintain the road or even things like its hours of operations.

Recognition criteria

In order to help evaluate which entity controls the infrastructure, the Statement of Principles proposes applying already-existing control guidance.

This means a public sector entity should recognize infrastructure, or a refurbishment or improvement to infrastructure, if the public sector entity controls:

- the purpose and use of the infrastructure;
- access to the infrastructure and the price, if any, the private sector entity can charge for using it; and
- any significant interest accumulated in the infrastructure when the public private partnership's term ends.

How do you account for the credit entry?

In exchange for infrastructure, consideration is transferred from the public sector to the private sector entity through any combination of the following:

- cash or other financial assets (financial consideration); or
- granting the private sector entity other rights (non-financial consideration).

Regardless of the type of consideration, the public sector entity needs to determine whether they have a liability.

Financial consideration

Financial consideration generally means a cash payment for the infrastructure.

The public sector entity should recognize a liability when it needs to pay cash or deliver another financial asset to the private sector entity for the building, acquisition, improvement or refurbishment of the infrastructure.

Non-financial consideration

Non-financial consideration is created when the public sector entity transfers other rights to the private sector entity in exchange for infrastructure. These rights could be:

- earning revenue from third-party users of the infrastructure (for example, users of a toll bridge); or
- accessing another revenue-generating public sector entity asset for the private sector entity's use (for example, a private wing of a hospital while the remainder of the hospital is used by the public sector entity to treat patients).

With non-financial consideration, the public sector entity needs to determine if they now have an obligation to the private sector entity when they granted them rights. If the public sector has ongoing obligations to the private sector entity, a liability is then created.

How should you initially measure the asset and liability?

The infrastructure asset and liability are initially measured at cost. This is consistent with existing PSA Handbook guidance.

Initial measurement

Infrastructure is measured at cost, which is consistent with guidance already in the PSA Handbook.

Determining the infrastructure's cost may require the public sector entity to apply a discounted cash flow technique.

This is because, assuming things are going well, the public private partnership includes a commitment to deliver an expected cash flow over the term of the partnership.

When a liability exists, it should be initially measured at the same amount as the infrastructure, reduced for any financial or non-financial consideration already transferred.

Discount rate

When applying a discounted cash flow technique, cost is measured by discounting the expected cash flows using a discount rate.

This rate should incorporate the time value of money and the risks specific to the infrastructure and liability – unless the cash flows are adjusted for the risks.

For example, a discount rate that reflects the uncertainty in expectations about future defaults is appropriate if using contractual cash flows of a loan. That same rate should not be used if using expected cash flows because they already include assumptions about the uncertainty in future defaults.

In Brief

A plain and simple overview of the Public Private Partnerships Statement of Principles

Next Steps

The deadline for comments is October 17, 2017.

During the comment period, PSAB staff are available to discuss the proposals with a wide range of parties.

How can I comment on the proposals?

You can answer all questions or just a selected few. PSAB welcomes comments on any other matters you think should be considered in forming its views.

Respondents are asked to submit their comments electronically via an [online response form](#) or sent via Word document to info@psabcanada.ca. All comments will be a matter of public record and will be posted online at www.frascanada.ca.

PSAB will consider all feedback and discuss responses at its meetings after the comment period has ended.

Stay informed

PSAB issues its agendas ahead of its meetings, which will indicate when it will be discussing your feedback on this topic. Get the dates of upcoming meetings and review our agendas via the [PSAB calendar](#).

Stay up to date on this project via the [online project page](#).

Please contact:

Dave Warren, CPA, CA
Principal, Public Sector
Accounting Board
Phone: +1 (416) 204-3287
Email: dwarren@psabcanada.ca