

# In Brief

*A plain and simple overview of Public Private Partnerships, Section PS 3160*

This is an overview of  
Public Private Partnerships,  
Section PS 3160

<b>Project objectives:</b>	To establish an accounting standard for the recognition, measurement, presentation, and disclosure of infrastructure procured through certain types of public private partnership arrangements.
<b>The project stage:</b>	The new Public Private Partnerships standard, Section PS 3160, was issued in the CPA Canada Public Sector Accounting (PSA) Handbook, in April 2021. It is effective for fiscal years beginning on or after April 1, 2023.
<b>Next steps:</b>	PSAB will closely monitor and support implementation of this new standard. Following PSAB's <a href="#">due process</a> , a post-implementation review may be considered after the effective date.

## Why did PSAB develop a standard on public private partnerships?

Public private partnerships models are unique, so PSAB stakeholders asked for an accounting standard to address them. In its commitment to serving the public interest, PSAB delivered this standard in April 2021.

There are over 250 public private partnership projects in Canada with capital investment of over \$100 billion. These types of projects include infrastructure assets – from highways and bridges, to light rail transit, hospitals, schools, and water-treatment facilities.

Public private partnerships were also identified as a priority in PSAB's 2014 Project Priority Survey, and the project was formally approved in December 2015.

Following PSAB's due process, an extensive consultation process was completed, including establishing the Public Private Partnerships Task Force and undertaking public outreach through a Statement of Principles (2017) and Exposure Draft (2019). The final standard was developed taking into feedback received on both these documents for comment.

The final standard helps financial statement users make more informed decisions by providing:

- scope and recognition criteria so stakeholders know when to recognize infrastructure acquired from public private partnership arrangements;
- measurement guidance to identify capital costs separately from ongoing operating and maintenance expenditures; and
- presentation and disclosure requirements that highlight to the users of financial statements the key terms and conditions of public private partnership arrangements.

# In Brief

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## Scope

Section PS 3160 deals with infrastructure procured by a public sector entity using a private sector partner, addressing a gap in the existing PSA Handbook guidance.



### What is a public private partnership?

Public private partnerships are an alternative finance and procurement model available to public sector entities to design, build, acquire, or better infrastructure using a private sector partner.

There is significant variety in Canadian public private partnership arrangements, based on the degree and form of private sector partner involvement. While sufficient guidance exists within the PSA Handbook for many of these arrangements, this standard is intended to address a gap in accounting for certain complex public private partnerships.

The scope of the standard includes public private partnership arrangements where the private sector partner is obligated to:

- design, build, acquire, or better new or existing infrastructure;
- finance the transaction past the point where the infrastructure is ready for use; and
- operate and/or maintain the infrastructure.

## When should infrastructure be recognized?

When a private sector partner both finances construction of infrastructure and operates/maintains that infrastructure, determining control over that infrastructure may be challenging.

### **A question of control**

Infrastructure acquired through a public private partnership is recognized as an asset when the public sector entity acquires control of the infrastructure.

However, for certain public private partnership arrangements, where a private sector partner finances the construction of infrastructure after it is ready for use – and provides operation/maintenance services for the infrastructure – determining control can be a difficult task.

### **Recognition**

Public private partnership infrastructure should be recognized when a public sector entity controls:

- the purpose and use of the infrastructure;
- access to the future economic benefits and exposure to the risks of the infrastructure asset; and
- significant residual interest in the infrastructure, if any, at the end of the public private partnership's term.

# In Brief

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## Measurement for an infrastructure asset

An infrastructure asset is initially recognized at its cost.

Where cost is not readily determinable, estimated fair value is considered to represent the infrastructure's cost.

### Initial measurement

The standard's guidance follows a prescriptive approach in determining the initial measurement of public private partnership infrastructure.

- Where appropriate, arrangement-based costs for the infrastructure asset are available, they would be used to initially measure cost.
- Where cost information is unavailable, estimated fair value is considered to represent the infrastructure's cost on initial recognition.

### Subsequent measurement

An infrastructure asset would be amortized over its useful life in a rational and systematic manner.



## What about the corresponding liability?

A liability should be initially measured at the same amount as the related infrastructure asset, reduced for any consideration already provided.

Depending on the arrangement, consideration may be transferred to the private sector partner through a combination of two models:

- **Financial liability model:** Via cash or other financial assets.
- **User-pay model:** Via the granting of other rights to the private sector partner.

### **Initial measurement**

A public sector entity would record a liability equal to the infrastructure asset, less any amounts already paid to a private sector partner.

The method by which a public sector entity transfers consideration and settles its liability to a private sector partner impacts the subsequent measurement of the liability.

### **Financial liability model**

For some public private partnership arrangements, a private sector partner may be compensated through a stream of cash or other financial assets – after construction of the infrastructure asset. These arrangements are referred to as using the financial liability model.

Under the financial liability model a public sector entity would record a liability, which would be measured subsequently at amortized cost using the effective interest method.

The standard requires the determination of an implicit contract discount rate to measure the cost of financing charged by a private sector partner to the public sector entity. Additional prescriptive guidance is provided within the standard where the implicit contract rate is not determinable.

### **User-pay model**

A public sector entity may not always settle the corresponding liability for the acquired infrastructure asset via cash or other financial assets. Rather, the private sector partner is granted rights – such as the right to earn revenue from third-party users, or access to other revenue-generating assets, as compensation. These arrangements are referred to as using the user-pay model.

Under the user-pay model, a public sector entity would record a liability for the conveyed performance obligation. The liability would subsequently be reduced as revenue is recognized, based on the terms and of the public private partnership arrangement.

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## Next steps



The new standard is effective for periods beginning on or after April 1, 2023 and may be applied retroactively with or without prior period restatement.

Get more information by the [online project page](#).

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