

Fiscal Accounting and Reporting for PPPs

Full Description

Governments need to account for and report on their financial commitments, including those under PPP contracts—an additional reason for the Ministry of Finance to keep a centralized register of financial commitments under PPP contracts, both direct and contingent. When reporting is done well, it encourages the government to scrutinize its own fiscal position. Making financial reports publicly available enables other interested parties—such as lenders, rating agencies, and the public—to reach an informed opinion on the government's public financial management performance.

[Types of Government Financial Reporting](#) briefly describes the three types of government financial accounting and reporting—government financial statistics, government financial statements, and budget documentation and reporting—and the internationally relevant—recognized standards and guidelines that apply in each case. In general, these standards set rules or guidelines for whether and how different kinds of liabilities and expenditures should be recognized—that is, formally recorded in the financial statements and statistics, or disclosed—and reported in notes or narratives. This section briefly describes how these standards apply to PPPs, with some examples of how different countries have interpreted them in practice.

Types of Government Financial Reporting

Most governments capture and report financial information in three related frameworks:

- **Government finance statistics**—these are summary statistics on the state of a government's finances, which are intended to be internationally comparable. These statistics may follow regional or international standards, such as those set by Eurostat for European Union countries, or the IMF's **Government Finance Statistics Manual (GFSM)** ([IMF 2014b](#)) published in 2001 but with regular updates since that date.
- **Government financial statements**—most governments also publish audited financial statements. There are internationally-recognized standards on what should be in those financial statements, although in practice few governments meet those standards. The International Public Sector Accounting Standards ([IFAC](#)) is a modified version of the International Financial Reporting Standards (IFRS). IPSAS is designed for use in the public sector, while IFRS applies to companies. Some governments adopt local accounting standards that are a simplified version of the IPSAS standards.

Budget documentation and reporting—most governments prepare reports on financial performance as part of budget preparation and reporting. These are not subject to any international standards, although there are international guidance materials that promote transparency—for example, the IMF's Update on the Fiscal Transparency Initiative ([IMF 2014a](#)) and the OECD's Recommendation of the Council on Budgetary Governance ([OECD 2015a](#)).

The **2016 Eurostat Guide to the Statistical Treatment of PPPs** ([EPEC 2016](#)) explains how government-pays PPP contract provisions are relevant to the **Eurostat statistical classification of PPPs** (see [Types of Government Financial Reporting](#)). The definition, for statistical purposes, of *general government sector* may differ from the one used for financial management of government affairs. Eurostat, a statistical office, uses the *risks and rewards* criterion for classification purposes, while the international standard for public accounts, IPSAS, uses the control criterion, as described in [Fiscal Accounting and Reporting for PPPs](#).

Recognizing PPP Liabilities in Government Accounts

Governments need to decide whether and when PPP commitments should be recognized—that is, formally recorded in financial statements as creating public assets, liabilities or expenses. This is important because limits or targets are often set on the government's liabilities and expenditures. Whether or not PPP commitments are recognized as expenses or liabilities can therefore influence a government's decision to pursue PPPs, or how to structure them, in a way that is not driven by the fundamental objective of achieving value for money. [Insufficient Funds](#) describes how some governments have used PPPs to circumvent limits on liabilities. The **2016 Eurostat Guide to the Statistical Treatment of PPPs** ([EPEC 2016](#)) notes that an excessive focus on off government balance sheet recording can be at the expense of sound project preparation and value for money and may push public authorities to use PPPs where not appropriate.

The financial standards mentioned in [Types of Government Financial Reporting](#) vary in their treatment of PPP fiscal commitments. A few standards specifically address when and how direct liabilities and assets of PPP projects should be recognized by the contracting governments:

- **International Public Sector Accounting Standards**—introduced in 2011, IPSAS-32 defines when PPP assets and liabilities should be recognized, assuming a government is following IPSAS accrual accounting standards, that is it records revenues and expenses when they are incurred, regardless of when cash is exchanged. Under IPSAS-32, PPP assets and liabilities appear on the government's balance sheet, provided the government controls or regulates the services the operator must provide with the PPP asset, to whom, and at what price; and the government controls any significant residual interest in the asset at the end of the contract. Under this definition, government-pays PPPs would appear on the government's balance sheet; the treatment of user-pays PPPs depends on the details of the contract ([IFAC 2011](#)). Additional IFAC guidance on IPSAS-32 is provided in ([IFAC 2016](#)). IPSAS-32 assumes full accrual accounting (for example, such that the government prepares a full balance sheet capturing both assets and liabilities)—PFRAM ([IMF and WB 2016](#)) adapts IPSAS-32 to cash accounting, allowing for users to see how a PPP is reflected in both accrual and cash accounting. Also relevant in the standard on contingent liabilities, IPSAS-19 ([IFAC 2002](#)).
- **The IMF's Government Finance Statistics Manual** ([IMF 2014b](#)) sets out criteria for classifying PPP assets and liabilities for statistical reporting purposes. Under these criteria, PPP assets and liabilities are accounted for in the government's balance sheet if the government bears most of the project's risks and rewards—for example, taking into consideration the degree to which the government controls the design, quality, size, and maintenance of the asset, and bears construction risk; as well as the allocation of demand risk, residual value and obsolescence risk, and availability risk.
- **Eurostat guidelines**—Eurostat requires European governments to recognize PPP liabilities in debt statistics where the government retains construction risk or demand or availability risk. **Rougemont's article on Accounting for PPPs** ([Schwartz et al. 2008](#), 256–268) provides more detail, and the **European Manual on Government Deficit and Debt** ([Eurostat 2016](#)) and the **European System of Accounts ESA2010** ([Eurostat 2010](#)) define the rules. Since PPPs transfer those risks to the private party, under this rule most PPPs tend to remain off the government's balance sheet—realizing that an excessive focus on off government balance sheet recording can be at the expense of sound project preparation and value for money and may push public authorities to use PPPs where not appropriate, Eurostat prepared with EPEC the **2016 Eurostat Guide to the Statistical Treatment of PPPs** ([EPEC 2016](#)).

Most accounting and reporting standards do not require governments to recognize contingent liabilities, including those arising from accepting risk under PPP contracts. **Cebotari's report on contingent liabilities** ([Cebotari 2008](#), Annex I) describes one limited exception: IPSAS standards for governments implementing accrual accounting ([IFAC 2002](#)) require contingent liabilities to be recognized, only if it is more likely than not that the underlying event will occur, and the amount of the obligation can be measured with sufficient reliability. In this case, the net present value of the expected cost of the contingent liability should be

recognized as a liability when the contract is signed.

Disclosing PPP Liabilities

Most international reporting and statistical standards agree that even when PPP commitments are not recognized as liabilities, they should be disclosed in notes to the accounts and reports. For example, an **IMF booklet on Public Investment and PPPs** ([Schwartz et al. 2008](#), 14–17) describes what information should be disclosed for PPPs in general, and specific disclosure requirements for guarantees. A **World Bank report on Disclosure of Project and Contract Information in PPPs** ([WB 2013c](#)) reviews practices in several jurisdictions and present best practices in the field.

Disclosing contingent liabilities can be challenging since it can be difficult to estimate their value. [Appraising Potential PPP Projects](#) provides guidance on how the value of contingent liabilities can be estimated. **Cebotari's paper on Government Contingent Liabilities** ([Cebotari 2008](#), 32–41) describes international guidelines for how contingent liability exposure should be disclosed—including those under PPP programs—and provides examples from several countries.

Cebotari's paper also describes how some countries have interpreted these standards in practice. For example, New Zealand and Australia disclose contingent liabilities—including to PPPs—in notes to financial statements, available online. Since 2007, **Chile's Budget Directorate of the Ministry of Finance** has published an **annual contingent liabilities report** ([CL 2016](#)), which initially presented information on contingent liabilities from revenue and exchange rate guarantees to PPPs. This report has since been expanded to cover other types of government contingent liability.

IMF's Fiscal Transparency Code ([IMF 2014c](#)) is the international standard for disclosure of information about public finances—it comprises a set of principles built around four pillars: fiscal reporting, fiscal forecasting and budgeting, fiscal risk analysis and management, and resource revenue management. Fiscal transparency evaluations (FTE) now include PPPs as a main object. FTE reports from all continents—e.g. Peru ([IMF 2015b](#)), Kenya ([IMF 2016](#)), Portugal ([IMF 2014d](#)), and the Philippines ([IMF 2015c](#))—demonstrate the relevance of fiscal transparency on PPPs.

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