



**AAPP 105 - ACT ACCOUNTING
POLICY PAPER
ON
PUBLIC PRIVATE PARTNERSHIPS
FINANCED BY THE OPERATOR
WITH THE ASSETS BEING
TERRITORY ASSETS AT THE END
OF THE ARRANGEMENT

FOR REPORTING PERIODS
ENDING ON OR AFTER 30 JUNE 2016**

**AAPP 105 – Public Private Partnerships Financed by the Operator with the Assets
being Territory Assets at the end of the Arrangement**

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1 INTRODUCTION

1.1 APPLICATION

1.1.1 PURPOSE

This ACT Accounting Policy: *Public Private Partnerships Financed by the Operator with the Assets being Territory Assets at the End of the Arrangement* provides high level guidance to agencies on the accounting for such projects.

This Policy is to be read in conjunction with the following:

- Amendment to UK FRS 5 *Reporting the Substance of Transactions*: Application Note F *Private Finance Initiative and Similar Contracts* (1998)
- AASB 17 *Leases*
- AASB Interpretation 129 *Service Concession Arrangements: Disclosures*

1.1.2 RELATIONSHIP TO ACCOUNTING STANDARDS

ACT Accounting Policies are to be read in conjunction with the applicable Australian Accounting Standards. Australian Accounting Standards incorporate International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board, with the addition of paragraphs on the applicability of each standard in the Australian environment.

There is, however, no intention that the ACT Accounting Policies will replicate the Accounting Standards. Consequently, directorates should ensure that they have a thorough understanding of the content of the standards before reading and applying relevant ACT Accounting Policies.

Public Private Partnerships within the scope of this policy are to apply the principles of Amendment to UK Financial Reporting Standard 5 *Reporting the Substance of Transactions*: Application Note F *Private Finance Initiative and Similar Contracts* (FRS 5).

1.1.3 APPLICATION DATE

This ACT Accounting Policy applies to reporting periods ending on or after 30 June 2016.

1.1.4 AGENCIES COVERED BY THIS POLICY

This policy applies to directorates and territory authorities.

1.1.5 CONTACT

If you have any questions regarding the content or application of this ACT Accounting Policy, please do not hesitate to contact the ACT Accounting Branch policy section to provide further clarification. Contact details are listed on the website: www.treasury.act.gov.au/accounting/html/contacts.htm.

2 PUBLIC PRIVATE PARTNERSHIPS

2.1 WHAT IS A PUBLIC PRIVATE PARTNERSHIP?

Public Private Partnerships (PPPs) are long term contracts entered into between a government agency (the grantor) and a private sector consortium (the operator) to design, finance, construct, operate and maintain infrastructure assets over a concession term (e.g. ACT Law Courts Facilities and the Light Rail Network). The private sector consortium receives service payments from the government agency over the life of the contract which are intended to cover the costs incurred by the consortium in constructing, delivering and maintaining and sometimes operating the infrastructure assets over the term of the contract.

2.2 EXAMPLES OF PUBLIC PRIVATE PARTNERSHIPS

Under a PPP contract, the private sector is responsible for supplying services that traditionally have been provided by the public sector. Examples of PPPs could include motorways, car parks and tunnels. Some examples of arrangements that are not PPPs include an agency outsourcing the operation of its internal sources (e.g. employee cafeteria, building maintenance and accounting or information technology functions).

3 POLICY POSITION

3.1 SCOPE OF POLICY

Currently, there is no Australian Accounting Standard on PPPs that addresses accounting by grantors (i.e. government agencies). In the absence of an Australian Accounting Standard, AASB 108 *Accounting Policies, Changes in Accounting Policies and Errors* provides a hierarchy for selection of accounting policies which includes the pronouncements of other standard setting bodies that use a similar conceptual framework (AASB 108.10). Selection of an appropriate accounting policy under AASB 108.10 is not the adoption of an accounting standard including its scope – it is the selection of an accounting policy for a certain class of transactions, events or circumstances. Therefore, the Territory may define the scope of the new accounting policy in a such a way that only a certain class of transactions is captured by that policy. The policy is that for PPP arrangements that meet both of the following criteria:

- (a) The Territory is compensating the operator for construction of the infrastructure assets through service payments over the period of the arrangement; and
- (b) The assets used in the project are Territory assets at the end of the arrangement (this excludes arrangements where the operator has an indefinite right of access to the assets or where the operator can continually renew access to the assets at an insignificant cost); **then:**
- (c) The principles of UK FRS 5 *Reporting the Substance of Transactions: Application Note F Private Finance Initiative and Similar Contracts* **are to be applied.**

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3.2 POLICY RATIONALE

The PPP arrangements this policy applies to are a form of financing by the Territory. This involves a long term contract between the government (grantor) and a private sector consortium (operator) to construct infrastructure and provide related services to the public with this infrastructure. The operator arranges finance for the upfront capital required to construct the infrastructure assets and is responsible for the design, construction, maintenance and/ or operation of these assets in accordance with the specifications in the agreement. The operator receives periodic service payments from the grantor during the project term which are intended to cover the costs incurred by the operator in constructing, delivering, maintaining and operating the infrastructure assets over the contract term or otherwise is provided with a right to charge users. The asset is a Territory asset at the end of the contract.

4 PUBLIC PRIVATE PARTNERSHIPS IN SCOPE OF THIS POLICY TO APPLY AMENDMENT TO UK FRS 5 *REPORTING THE SUBSTANCE OF TRANSACTIONS: APPLICATION NOTE F PRIVATE FINANCE INITIATIVE AND SIMILAR CONTRACTS* (1998)

4.1 APPLYING THE PRINCIPLES OF FRS 5 (PARTICULARLY PARAGRAPH F7(A)) RESULTS IN PUBLIC PRIVATE PARTNERSHIPS IN SCOPE BEING ACCOUNTED FOR UNDER AASB 117 *LEASES*

FRS 5 applies *a risks and rewards* approach to the recognition of assets in a PPP arrangement. Under this approach, the focus is on the grantor's obligations to the operator. Application of the requirements of FRS 5 to PPPs within the scope of this policy results in such arrangements being accounted for by the Territory as leases in accordance with AASB 117 *Leases*, with the arrangements resulting in finance lease or operating lease accounting depending upon the contractual payment terms. Service payments for these types of arrangements are typically separated into property and service (maintenance/operating) elements and AASB 117 should be used to determine whether the arrangement (the provision of the property) is a finance lease (on balance sheet) or an operating lease (off balance sheet) for the grantor.

Application Note F requires a disaggregation of the service payment to determine the accounting treatment. Where elements of the service payment relate only to services (maintenance/operating), they should be ignored for the purposes of determining who has the property (Para F6). Once the service component of the payment has been excluded, PPPs are then separated into two categories for accounting purposes (Para F7):

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- PPPs where the only remaining element is for the property, (i.e. the financing part of the infrastructure), which are treated akin to a lease and accounted for in accordance with the lease standard Para F7(a); or
- PPPs where the remaining element of the service payment still incorporates some services (maintenance/operating), in which case they are accounted for directly within FRS 5 (Para F7 (b)).

To re-iterate, where a PPP contains service payments which can be fully disaggregated into their financing component, such arrangements are required to be accounted for as leases.

4.2 FINANCE LEASES

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership (AASB 117.8). The indicators of a finance lease include the following:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lease term is for the major part of the economic life of the asset;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

Indicative criteria for a finance lease are in AASB 117 at paragraphs 10 and 11. Typically, the type of PPP project assets covered by this policy meet the finance lease definition.

4.3 TIMING OF RECOGNITION OF ASSETS AND LIABILITIES FOR FINANCE LEASES

The leased assets and a corresponding lease liability will be recognised on the balance sheet at the commencement of the lease term i.e. at **Commercial Acceptance**, which is the date on which the lessee becomes entitled to use the leased assets for the provision of public services (AASB 117.20).

4.4 DETAILED ACCOUNTING ADVICE

Agencies should seek detailed accounting advice from an accounting firm initially and then as necessary, in applying this policy.

5 DISCLOSURES

5.1 GRANTOR DISCLOSURES UNDER AASB INTERPRETATION 129 *SERVICE CONCESSION ARRANGEMENTS: DISCLOSURES*

AASB Interpretation 129.6 requires grantors to disclose the following in each period:

- (a) a description of the arrangement;
- (b) significant terms of the arrangement that may affect the amount, timing and certainty of future cash flows (e.g. the period of the concession, re-pricing dates and the basis upon which re-pricing or re-negotiation is determined);
- (c) the nature and extent (e.g. quantity, time period or amount as appropriate) of:
 - (i) rights to use specified assets;
 - (ii) obligations to provide or rights to expect provision of services;
 - (iii) obligations to acquire or build items of property, plant and equipment;
 - (iv) obligations to deliver or rights to receive specified assets at the end of the concession period;
 - (v) renewal and termination options; and
 - (vi) other rights and obligations (e.g. major overhauls);
- (d) changes in the arrangement occurring during the period; and
- (e) how the service arrangement has been classified.

Note that these disclosures apply to any arrangement that meets the Service Concession Arrangement definition contained in AASB Interpretation 129 which **is broader** than the scope of this policy for recognition and measurement.