

PPP Accounting: What should we be trying to achieve.

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PPP Accounting: What are we trying to achieve?

What trying to achieve with **PPP accounting**? It makes it sounds like some special form of accounting.

- Should be “What trying to achieve with **accounting** generally, including for PPP”? Same as any other accounting!
- Explain to stakeholders state of affairs of Department etc.



PPP Accounting:
What are we trying to achieve?

Accounting is about communication

- good communication-
of the actual economics.

Accounting should not drive the
economics.

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Or, in other words,

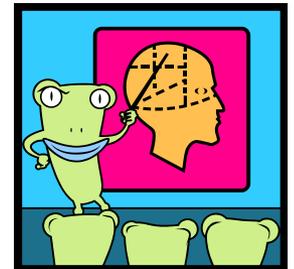
A good deal is a good deal.....

.....however you account for it!



PPP Accounting: What are we trying to achieve?

- Often argued that PPP is just a way to buy a service.
- Must be something special about PPP (otherwise wouldn't be having conference on it!).
 - So need to distinguish it from other forms of “just” buying a service.



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Distinguishing feature is usually that the service is associated with a major asset.

But this comes in many different forms:

- A bridge to be paid for completely by tolls
- A bridge to be paid for completely by government based on a “phantom toll”
- A fleet of government cars with drivers
- Fulfilling a government department’s transport needs using an existing fleet of taxis which also continue to be used for other customers



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As with other services, payment designed to cover both fixed and variable costs of service provider. However, for some PPP contribution to fixed costs consistent in total with paying for a specific asset over time.



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Often demonstrated by the fact that benefits of asset pass to the department on completion of the service contract:

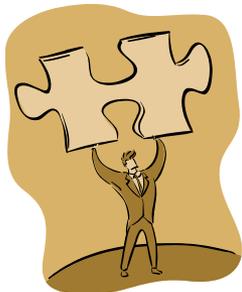
- Asset potentially needed in long term.
- Service provider only acquires the asset for purposes of PPP
- Would not get value for money if service provider has benefit. after the end of the contract.



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If just account as ongoing service cost fail to demonstrate these special features:

- Commitment to pay cost equivalent to cost of asset.
- Rights to future potential benefits of asset.



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Disclosure in the notes is a partial solution, but is far from the best form of communication.



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So need to reflect annual cost in the revenue statement, but also need to reflect something in the balance sheet that corresponds to the asset being used and the obligation to contribute to its cost.



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- So what are we trying to achieve?
- We're trying to achieve a set of accounts which clearly communicates not only the cost of providing that particular service over the period, but also the beneficial interest which exists in the capital asset as well as the obligation to pay towards the cost of the asset in future periods.



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Often compared to accounting for a lease, but PPP more complex and subtle than leasing.

- However, need some way to capture relationship of PPP to associated asset.
- Leasing model is probably the best comparison we have to date.
- But need also to capture the pure service element of PPP.



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One final thought:

We are talking here about “PPP ***Accounting***”. I am not talking about anything that might be prepared for, say, National Statistical purposes. National Statistics have different characteristics. They have to be prepared on some common bases, comparing structures which may not be common cross-border. As such, different rules might well apply.



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