PPP Accounting: Transparency and Governance

David Heald (University of Aberdeen)

- **Normative judgement that Value-for-Money should be the sole criterion in the choice of PPP versus traditionally-financed procurement, but the desire for 'additionality' or non-transparency often leads to arbitrage ("venue shopping") between accounting rules. Expenditure control frameworks, audit arrangements and taxation considerations matter**
- **Risks & rewards versus control as the criterion for balance sheet treatment in financial statements**
- **Non-symmetrical treatment in operator accounts (Special Purpose Vehicle, consolidated accounts of listed parent) and between private sector operator and public authority client**
- **Likelihood of new domain of arbitrage between national accounts (in Europe, ESA95 and Eurostat (2004) guidance) and financial reporting, as the latter tightens**
- **Globalisation of standard-setting for financial reporting (IASB published IFRIC 12; IPSASB has published ED43 on service concession arrangements) in a different epistemic community from that governing national accounts standards, raising authority and legitimacy issues**
- **Interaction of leasing standards and service concession standards; issue of what is understood by PPP (tolled infrastructure financed by third-party user charges versus prisons and schools financed out of future taxation); application of consolidation rules**
- **Achievement of transparency requires constant vigilance as temptations to arbitrage can seem compelling to decision-makers, especially those confronting budgetary hard times. There are real resources cost if funding type (PPP or not) or project design is determined by accounting treatments rather than by VFM**

See pre-circulated: David Heald and George Georgiou, 'Accounting for PPPs in a converging world', in G.Hodge, C. Greve and A. Boardman, *International Handbook on Public-Private Partnerships*, Cheltenham, Edward Elgar, 2010, pp. 237-61

Possible combinations of balance sheet treatment

	Off balance sheet of operator	On balance sheet of operator
On balance sheet of purchaser	4 On balance sheet of purchaser Off balance sheet of operator	1 On balance sheet of purchaser On balance sheet of operator
Off balance sheet of purchaser	3 Off balance sheet of purchaser Off balance sheet of operator	2 Off balance sheet of purchaser On balance sheet of operator

Table 1: Balance Sheet Treatment of Signed PFI Deals (October 2007)

	Is capital value scored on or off the Departmental Balance Sheet (on/off)?					
	No. of schemes		Total capital value (£m)		Percentage of capital value	
	On	Off	On	Off	On	Off
Cabinet Office	1	1	330	18	95%	5%
Crown Prosecution Service	1	0	0	22	0%	100%
Department for Business, Enterprise and Regulatory Reform	1	2	22	41	35%	65%
Department for Children, Schools and Families	1	114	21	4,762	0%	100%
Department for Communities and Local Government	0	48	0	1,333	0%	100%
Department for Culture, Media and Sport	0	14	0	236	0%	100%
Department for Environment, Food and Rural Affairs	0	17	0	1,508	0%	100%
Department for Transport	21	30	19,938	2,771	88%	12%
Department for Work and Pensions	0	1	0	990	0%	100%
Foreign and Commonwealth Office	1	1	17	74	19%	81%
Health	5	88	243	9,769	2%	98%
Home Office	0	26	0	849	0%	100%
Inland Revenue	1	7	182	658	22%	78%
Ministry of Defence	12	39	2,267	3,495	39%	61%
Ministry of Justice	26	2	725	51	93%	7%
Northern Ireland Executive	7	26	327	737	31%	69%
Scottish Government	3	98	32	4,647	1%	99%
Welsh Assembly Government	1	23	7	515	1%	99%
TOTALS	81	537	24,110	32,475	43%	57%

Source : calculated from http://www.hm-treasury.gov.uk/media/B/E/pfi_signeddeals_231007.xls (last accessed 22 February 2008).
Note : no balance sheet information was available for two Scottish Government schemes, so they have been excluded from these figures.

Challenges – off balance sheet

- **Does the following make PPP more attractive in comparison to TIP?**

	The project generates debt that is not on the balance sheet of government
Yes	5
No	9
Sometimes	4
Not answered	3
Total	21