PSAB AT A GLANCE

Section PS 3160 - Public Private Partnerships

December 2021

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Effective Date
Fiscal years beginning on or after April 1, 2023

SCOPE

Does not apply to:

- Traditionally procured infrastructure where the public sector entity controls the asset and bears the associated construction and financial risks, which is accounted for in accordance with *Section PS 3150, Tangible Capital Assets*
- Leased infrastructure that does not satisfy the criteria for recognition of an infrastructure asset as part of a public private partnership agreement, which is accounted for in accordance with *PSG-2, Leased Tangible Capital Assets;*
- Operating and maintenance arrangements with a private sector partner where it is not necessary to design, build, acquire, better or finance public infrastructure as part of the arrangement. The definition of expenses in *Section PS 1000, Financial Statement Concepts* would apply to such arrangements;
- Write-down of infrastructure, which are covered in *Section PS 3150, Tangible Capital Assets;*
- Public private partnerships where there is no financing required by the private sector partner past the point where the infrastructure is ready for use; and
- Accounting for and reporting a public sector entity's interest in a partnership where the partners co-operate toward achieving significant, clearly defined common goals, which are covered in *Section PS 3060, Interests in Partnerships*.

PUBLIC PRIVATE PARTNERSHIPS

- Public private partnerships are an alternative finance and procurement model available to public sector entities where the public sector entity procures infrastructure using a private sector partner.
- The private sector partner's obligations include requirements 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.

RECOGNITION

INFRASTRUCTURE ASSETS

- Infrastructure assets are accounted for and reported as assets on the Statement of Financial Position in accordance with *Section PS 3150, Tangible Capital Assets*.
- Infrastructure identified in a public private partnership arrangement meets the definition of an asset for the public sector entity when **all of the following criteria** are met:
  - The public sector entity expects to benefit from the use of the service capacity of the infrastructure to provide goods and services and is exposed to the risks.
  - Through the terms of the arrangement, the public sector entity controls the infrastructure, access to the related future economic benefits, and exposure to the risks. The terms specify:
    - The purpose and the use of the infrastructure;
    - Who may access the infrastructure;
    - Its related future economic benefits; and
    - Any significant residual interest in the infrastructure that exposes the public sector entity to the risks associated with the asset
  - The signed and executed public private partnership agreement comprises the past event that gives control of the infrastructure to the public sector entity.

INFRASTRUCTURE LIABILITIES

- When a public sector entity has recognized an infrastructure asset in relation to a public private partnership arrangement **and** has an obligation to provide consideration to the private sector partner, the public sector entity should recognize a liability.
- The liability should be recognized when the infrastructure asset is recognized.
- The type of consideration provided to the private sector partner determines whether the entity recognized a financial liability (financial liability model) or a performance obligation (user-pay model).
- A public sector entity's liability for the design, build, acquisition or betterment of infrastructure could result from a combination of the financial liability model and user-pay model. In such circumstances, the entity would recognize both a financial liability and a performance obligation
- The entity is also obligated to pay the private sector partner to operate and/or maintain the infrastructure as part of the public private partnership arrangement. This represents a contractual obligation of the public sector entity and would initially be disclosed in accordance with *Section PS 3390, Contractual Obligations*.

MEASUREMENT

INFRASTRUCTURE ASSETS

Initial measurement

- Initially recognized at the public sector entity's cost, which represents fair value at the date of recognition
- Cost includes:
  - The gross amount of consideration given up to acquire, construct, develop or better a tangible capital asset; and
  - All costs directly attributable to the, acquisition, construction, development or betterment of the infrastructure asset, including:
    - activities such as technical and administrative work before and during construction to prepare infrastructure for its intended use.
    - Costs to the private sector partner for construction related risks, such as design risks, cost overrun risks, etc. that may not exist in traditional procurement models.
- Where cost is neither determinable nor verifiable from the public private partnership process and agreement, cost is determined to be equal to the estimated fair value of the asset at the transaction date.
- In rare instances where the fair value cannot be reasonably determined, the infrastructure asset would be valued at the present value of the capital portion of predetermined service payments, lump-sum payments and any progress payments using an appropriate discount rate. See guidance on the financial liability model on how to determine the discount rate.
- Betterments:
  - The cost incurred to enhance the service potential of an infrastructure asset.
  - The cost of the betterment is added to the value of the existing infrastructure asset not expensed like repair and maintenance costs.

Subsequent measurement

- The cost of an infrastructure asset with a limited life less any residual value is amortized over the assets useful life.
- Amortization must be recognized in a rational and systematic manner appropriate to the nature of the infrastructure asset and its use by the entity.
- Amortization is recognized as an expense in the Statement of Operations.
- An entity must review the amortization method and the estimate of the useful life for the remaining unamortized portion of an infrastructure asset on a regular basis and revise it when it can clearly demonstrate the appropriateness of a change.

MODIFICATIONS TO CONTRACTUAL TERMS AND TAKEOVER RIGHTS

Modifications, such as deductions, liquidated damages, or penalties, may occur during the life of the partnership. Modifications are accounted for when the event occurs depending on the facts and circumstances of each scenario.

INFRASTRUCTURE LIABILITIES

Initial measurement

- Initially measured at the same amount as the related infrastructure asset, reduced for any consideration previously provided to the private sector partner.
- When a liability is created as a result of the financial liability model and the user-pay model combined, the sum of the liabilities is equal to the cost of the asset(s) received by the public sector entity.
- Other consideration attributable to the partnership agreement (such as operating and maintenance payments) are excluded from the measurement of the liability.

Subsequent measurement

- The public sector entity transfers consideration to the private sector partner in exchange for infrastructure through any combination of the following:
  - Cash or other financial assets (financial liability model; or
  - Granting the private sector partner other rights (user-pay model).

Financial liability model

- Financial liabilities are subsequently measured at amortized cost using the effective interest method.
- Transfers of cash or other financial statements shall be allocated to repayments of the liability and interest expense according to *Section PS 3450, Financial Instruments*.
- Interest charges are recognized as an expense in the Statement of Operations.
- The implicit contract rate should be used to calculate the finance charge embedded in the financial liability.
  - When the implicit contract rate is not determinable, the weighted average cost of capital specific to the public private partnership arrangement, or the private sector partner's cost of capital should be used
  - If neither of these rates can be determined, another rate that accurately reflects the financing charge should be used. This rate and the circumstances resulting in the inability to determine a rate should be disclosed.
- To extinguish all or a portion of a financial liability, the public sector entity must:
  - Discharge the liability by paying the private sector partner cash or delivering another financial asset; or
  - Be legally released from its responsibility for the liability either by law or by the private sector partner.

User-pay model

- In a user-pay model, the public sector entity grants the private sector partner the right to earn revenue from third-party users as compensation. These rights often take the form of:
  - Earning revenue from third-party users of the infrastructure (e.g., a toll bridge); or
  - Accessing another revenue-generating public sector entity asset for the private sector partner's use (e.g., access to operate, maintain and charge rents at a college residence owned by the public sector entity)
- Revenue from the user-pay model should be recognized, and the liability reduced accordingly, according to *Section PS 3400, Revenue*.

DISCLOSURE

The following disclosures are required by a public sector entity for its public private partnerships:

- Significant terms of the arrangement that may affect the amount, timing and uncertainty of future cash flow payments;
- Key rights and obligations for the private sector partner under the arrangement;
- The accounting policy used by the public sector entity in accounting for infrastructure assets and liabilities, including the basis for any estimation techniques used; and
- Changes in the terms of the arrangement occurring during the reporting period.

TRANSITION

- This section is effective for fiscal years beginning on or after April 1, 2023 and may be applied retroactively or prospectively as follows:
  - Prospectively, for an infrastructure asset and related liability where the control by the public sector entity over the infrastructure asset arose on or after April 1, 2023
  - Retroactively with or without prior period restatement, for an infrastructure asset and related liability where control by the public sector entity over the infrastructure asset arose prior to April 1, 2023 and the asset and related liability has not been previously recognized; and
  - Retroactively with or without prior period restatement, for an infrastructure asset and related liability where control by the public sector entity over the infrastructure asset arose prior to April 1, 2023, and the previously recognized asset and related liability requires adjustment in applying this section.

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