2400 Public Private Partnerships (P3s)

A. Overview

Public private partnerships (P3s) are a method of procuring tangible capital assets (TCAs) under a contractual arrangement in which a private contractor:

- provides some or all of the financing for a project;
- designs and builds the capital asset, often providing operations and maintenance for the project past the point of substantial completion; and,
- receives payments over an extended period of time.

P3s generally result in 3 distinct payment streams:

- Capital – capital assets procured under a P3 arrangement are financed (in part or whole) by the private contractor. Payments to the private contractor for the capital asset are made over time and therefore will include an interest component as well as a principal component.
- Operations and Maintenance – If operations and maintenance are provided by the private contractor, a schedule outlining future payments over the life of the contract will be in place.
- Life cycle – Most P3 contracts will include a provision for life cycle payments. These are paid to the contractor over the life of the contract and are used to repair and maintain or enhance the asset's useful life.

B. Accountability

Ministries are responsible for maintaining source documents, working papers and files supporting P3 transactions (assets, liabilities and expenses) for internal and external audit and review.

For P3 assets and liabilities, ministries are required to:

- manage them to provide effective, efficient and economical program delivery;
- establish and maintain accounting systems to collect, record and report information;
- establish and maintain adequate internal control systems to ensure the accuracy, reliability and timeliness of financial information and reports; and
- establish and maintain reconciliations of asset and liability accounts to amounts recorded in the central financial system and the P3 contract at least annually.

Ministries are required to comply with additional guidance located in section 1300 Tangible Capital Assets.

C. Procedures

P3 accounting procedures are based on guidance from various sections in the Public Sector Accounting Handbook. PSAB is currently developing a specific P3 standard and these procedures will be updated as necessary once that standard is completed and released.

Appropriations are required for capital asset acquisitions using the cost (as defined in C4. Cost) of the P3 asset and the estimated percentage of completion of the capital asset at year end. Amortization, write-downs, and gains and losses resulting from disposals do not impact appropriation.

Obligations under long-term financing arrangements represent the Government's liability for TCAs acquired through P3s. The obligation is recorded during the construction period at the same time as the TCA.

Appropriations are required for interest costs, operations and maintenance and life cycle costs.

C1. Throughout the Year

The following P3 transactions may be required throughout the year:

- record P3 asset and obligation additions on a timely basis, including costs for completed Work in Progress (C4. Cost and C5. Obligations Under Long-Term Financing Arrangements);
- record any progress payments made during the construction period (C5. Obligations Under Long-Term Financing Arrangements);
- record any capital contributions from a third party (C6. Capital Contributions);
- record any capital transfers to a third party (C7. Capital Transfers);
- record amortization expense monthly, quarterly or at year end in accordance with guidance in section 1300 Tangible Capital Assets (C8. Amortization); and
- record monthly service payments made once the P3 asset is operational, appropriately breaking out amounts for principal, interest, maintenance and life cycle costs (C9. Interest Costs, C10. Operations and Maintenance Costs and C11. Life Cycle Costs).

C2. Quarter end

The following P3 transactions are required for each quarter end:

- record P3 asset additions in excess of $1 million that have not yet been recorded based on the estimated percentage of completion (See **A** entries in Examples 1.1);
- record P3 obligation additions in excess of $1 million that have not yet been recorded based on the estimated percentage of completion (See **A** entries in Examples 1.1 and 2.1); and
- ensure that any P3 asset amortization, service payments and principal and interest calculations are recorded and up to date (See **E** and **F** entries in Examples 1.2, 2.2 and 3.2).

Amounts recorded at quarter end should not be reversed.

C. Procedures *(continued)*

C3. Year end

At the end of the year, ministries need to determine their obligation under long-term financing arrangement based on the percentage of completion basis during the period of construction and compare it to the obligation under long-term financing arrangement balance already recorded to determine whether an accrual entry is required at March 31st.

P3 asset and obligation accounts should be reconciled at year end to agree to the terms set out in the P3 agreement. See section 1300 Tangible Capital Assets for additional guidance related to the P3 asset at year end and throughout the year.

Ministries are required to report P3 assets and obligations annually to the Provincial Comptroller's Office (PCO) as outlined in Appendix A – General Revenue Fund Year End Procedures and Schedules.

C4. Cost

P3 assets are recorded at cost. The cost of a capital asset acquired through the P3 procurement process is calculated by adding:

- the payments made during or upon completion of construction (nominal dollars); and
- the present value of future capital payments discounted to the date the asset is available for use using the Government's borrowing rate for long-term debt at the time the contract is signed. The borrowing rate used does not change throughout the life of the project.

Other acquisition costs may have been incurred in the planning and procurement stage of the project. Capitalization of these costs should commence only when the project is likely to proceed. Refer to additional guidance on capitalization of costs in section 1300 Tangible Capital Assets.

Work-in-progress should be calculated using the percentage of completion of the capital asset at the end of the reporting period multiplied by the cost of the capital asset. Due to the size of P3 projects, work-in-progress accruals should be recorded on a monthly or at least a quarterly basis. Refer to additional guidance on work-in-progress in section 1300 Tangible Capital Assets or C2. Quarterly Procedures.

See **A** entries in Example 1.1.

C. Procedures *(continued)*

C5. Obligations Under Long-Term Financing Arrangements

An obligation under long-term financing arrangement is recorded at the same time and for the same amount as the capital asset is recorded, over the period of construction, based on percentage of completion of the capital asset. See guidance in C4. Cost. This obligation represents the future capital payments payable to the contractor, discounted by the Government's borrowing rate.

See **A** entries in Examples 1.1 and 2.1.

The obligation under long-term financing arrangement will be reduced by payments made before, during, and upon completion of construction (See **C** entries in Examples 1.1 and 2.1), as well as the capital component of the payments made to the contractor over the term of the contract once the capital asset is put into use (See **F** entries in Examples 1.2, 2.2 and 3.2).

C6. Capital Contributions

A ministry may receive funds from a third party, such as the federal government, to assist with the acquisition of a P3 asset. The full cost of the asset should be recorded as a TCA.

The funds received should be recognized as transfer revenue according to criteria outlined in PSAB Handbook PS 3410 Government Transfers. The timing of revenue recognition will depend upon the terms of the contract. For example, if there is a cost shared agreement to reimburse a percentage of eligible costs, the revenue should be recognized over the construction period.

See **B** entries in Example 1.1.

C7. Capital Transfers

Ministries may provide transfers to third parties, such as school boards or a regional health authority, to enable these entities to acquire or upgrade capital assets through a P3 procurement process. Since the GRF has no ownership interest in the assets acquired or upgraded, the ministry has a transfer expense. Refer to section 3200 Government Transfers.

See **D** entries in Examples 2.1 and 3.1.

C. Procedures *(continued)*

C8. Amortization

The cost of a P3 asset is amortized in accordance with section 1300 Tangible Capital Assets with the exception noted below.

Most P3 contracts contain performance requirements which specify that the asset will be maintained at agreed-upon levels through the duration and at the end of the contract period. Performance requirements include scheduled improvements of the assets such that there is significant useful life remaining at the end of the arrangement. Therefore, it is likely that the estimated useful life of the asset will exceed the historical averages for each particular asset class.

For assets capitalized under a P3 arrangement, the estimated useful life should be assessed, in consultation with the Provincial Comptroller's Office, as the term of the P3 contract plus the expected residual useful life of the asset, which should be no greater than the estimated useful life of the relevant category as listed in Schedule B of section 1300 Tangible Capital Assets.

See **E** entries in Example 1.2.

C9. Interest Costs

P3 contracts include a stream of capital payments to be made over the life of the contract. In calculating the cost of the asset and the obligation, these cash flows are present valued using the Government of Saskatchewan's borrowing rate at the financial close of the contract. Therefore the capital payments include a principle portion and an interest portion.

Annual interest cost is calculated by multiplying the obligation under long-term financing arrangement at the beginning of the period by the Government of Saskatchewan's rate of borrowing used to calculate the cost of the capital asset. The remaining amount of the capital payment is the principle portion.

Interest costs are expensed as incurred to account 585600 Interest on P3 Obligations.

See **F** entries in Examples 1.2, 2.2 and 3.2.

C10. Operations and Maintenance Costs

A portion of the payments made to the contractor over the term contract may include operations and maintenance payments. Operations and maintenance payments are expensed as incurred.

See **F** entries in Examples 1.2, 2.2 and 3.2.

2400 Public Private Partnerships (P3s)

C. Procedures *(continued)*

C11. Life Cycle Costs

A portion of the payments made to the contractor over the term of the contract may include life cycle costs. Life cycle costs are placed in a fund by the contractor to be used to repair and maintain the asset or enhance the asset's useful life. If the maintenance serves to enhance the service potential of the asset, then the costs should be treated as betterments. Otherwise they should be expensed when incurred. Refer to additional guidance on betterments in section 1300 Tangible Capital Assets.

See **F** entries in Examples 1.2, 2.2 and 3.2.

C12. Penalties

P3 contracts often allow for Ministries to impose penalties on the P3 contractor. These could be a result of delays in the construction process, performance measures during construction, or deductions from operations and maintenance payments as a result of facility operations (i.e. an elevator being down for a specific length of time or failure to adequately remove snow).

When the penalties result in a reduction of capital payments (either construction progress payments or principal payments) the penalties should be recorded as income to account 485100 Casual Revenue. The only exception would be when the Ministry assesses and documents that a write-down of the TCA is appropriate. A TCA should be written down when a reduction in the value of the asset's service potential can be measured and the reduction is expected to be permanent. Refer to guidance on write-downs in section 1300 Tangible Capital Assets.

If a write-down is not appropriate, then the P3 asset should continue to be recorded at the originally calculated amount with the reduced capital payments being treated as revenue as noted above. Note that in all cases where capital payments are affected, the P3 obligation must be adjusted appropriately so that the obligation is still reduced to nil at the end of the P3 contract.

Operations penalties imposed as a result of facility operations are typically specific dollar amounts attached to events (services not received) that are tracked and deducted from the maintenance portion of the service payments. The amount of the penalty is based on the contractor's performance during the operation period. Invoices for operations and maintenance payments that include deductions for operations penalties should be expensed at the net amount.

C. Procedures *(continued)*

C13. Accounting Examples

Examples are provided for the following situations:

- Example 1: GRF owned P3
- Example 2: P3 owned by Government entity (GRF has P3 contract)
- Example 3: P3 owned by Government entity (Government entity has P3 contract)

Note that letters before each journal entry correspond to references throughout the section.
Note that all footnotes are located at the end of the accounting examples section.

ASSUMPTIONS FOR EXAMPLES:

Construction progress payments:	
(1) when asset reaches 45% completion	**$200,000**
(2) at substantial completion	**$300,000**
Annual payments (over term of contract with contractor)	
Capital component	**$20,000**
Operations & Maintenance components	**$50,000**
Life Cycle component	**$15,000**
Total annual payment	**$85,000**
Contract term	**30 years**
Useful life of asset	**40 years**
Government cost of borrowing	**4%**
Construction period	**4 years**
(assume ¼ constructed each year over the 4 year construction period)	
Federal funding revenue to reimburse eligible costs (Example 1 only)	**$200,000**
Cash received:	
(1) end of year 3	**$60,000**
(2) at substantial completion	**$140,000**
Cost (book value) of asset calculation:	
Construction progress payments	
(1) when asset reaches 45% completion	**$200,000**
(2) at substantial completion	**$300,000**
(3) PV of 30 annual capital component payments ($20,000), discounted at government's rate of borrowing at the date of the contract's financial close (4%) to point asset available for use	**$346,000**
Total calculated capital cost	**$846,000**

C. Procedures *(continued)*

C13. Accounting Examples *(continued)*

Example 1: Accounting for GRF owned P3

Assumptions:

GRF owns asset

GRF has P3 contract with contractor

GRF is incurring expense

Example 1.1

Accounting entries during construction period

Year 1

			Debit	Credit
A	Debit	199242 WIP Construction – Current Year Additions	211,500	
	Credit	270000 Obligation Under Long-term Financing Arrangements		211,500

∗ journal entry to record the asset addition on a percentage of completion basis $846,000 x 25% = $211,500

B	Debit	107000 Accounts Receivable	50,000	
	Credit	461000 Federal-Provincial Cost Sharing Programs		50,000

∗ journal entry to record federal funding revenue on a percentage of completion basis $200,000 x 25% = $50,000

Year 2

A	Debit	199242 WIP Construction – Current Year Additions	211,500	
	Credit	270000 Obligation Under Long-term Financing Arrangements		211,500

∗ journal entry to record the asset addition on a percentage of completion basis

C	Debit	270000 Obligation Under Long-term Financing Arrangements	200,000	
	Credit	253000 Accounts Payable – from Accounts Payable		200,000

∗ invoice or debit memo to initiate construction progress payment when asset reaches 45% completion

B	Debit	107000 Accounts Receivable	50,000	
	Credit	461000 Federal-Provincial Cost Sharing Programs		50,000

∗ journal entry to record federal funding revenue on a percentage of completion basis

2400 Public Private Partnerships (P3s)

C. Procedures *(continued)*

C13. Accounting Examples *(continued)*

Example 1.1 (continued)

Year 3

			Debit	Credit
A	Debit	199242 WIP Construction – Current Year Additions	211,500	
	Credit	270000 Obligation Under Long-term Financing Arrangements		211,500
		∗ journal entry to record the asset addition on a percentage of completion basis		
B	Debit	107000 Accounts Receivable	50,000	
	Credit	461000 Federal-Provincial Cost Sharing Programs		50,000
		∗ journal entry to record federal funding revenue on a percentage of completion basis		
B	Debit	100000 Cash	60,000	
	Credit	107000 Accounts Receivable		60,000
		∗ journal entry to record cash payment received from federal government		

Year 4

			Debit	Credit
A	Debit	199242 WIP Construction – Current Year Additions	211,500	
	Credit	270000 Obligation Under Long-term Financing Arrangements		211,500
		∗ journal entry to record the asset addition on a percentage of completion basis		
C	Debit	270000 Obligation Under Long-term Financing Arrangements	300,000	
	Credit	253000 Accounts Payable – from Accounts Payable		300,000
		∗ invoice or debit memo to initiate construction progress payment when asset reaches substantial completion		
B	Debit	107000 Accounts Receivable	50,000	
	Credit	461000 Federal-Provincial Cost Sharing Programs		50,000
		∗ journal entry to record federal funding revenue on a percentage of completion basis		
B	Debit	100000 Cash	140,000	
	Credit	107000 Accounts Receivable		140,000
		∗ journal entry to record cash payment received from federal government		

C. Procedures *(continued)*

C13. Accounting Examples *(continued)*

Example 1.2

Accounting entries during use of asset and over term of contract with contractor

Year 5 (and beyond)

E	Debit	588400 Amortization – Highways – Construction	21,150	
	Credit	196110 Accumulated amortization – Highways – Construction		21,150
		∗ journal entry to record annual amortization over the remaining useful life of the asset ∗ Book value of $846,000/useful life of 40 years = $21,150 annually		
F	Debit	585600 Interest on P3 Obligations[1]	13,840	
	Debit	524600 Maintenance Contracts (Operations & Maintenance)	50,000	
	Debit	524600 Maintenance Contracts (life cycle)[2]	15,000	
	Debit	270000 Obligation Under Long-term Financing Arrangements[3]	6,160	
	Credit	253000 Accounts Payable – from Accounts Payable		85,000
		∗ invoice or debit memo to initiate annual payment to P3 contractor over the remainder of the P3 contract term		

Example 2: Accounting for P3 owned by Government entity (i.e. School Division)

Assumptions:

Government entity owns asset
GRF has P3 contract with contractor
GRF has cost-shared funding agreement with Government entity
GRF is incurring expense

Example 2.1

GRF Accounting entries during construction period

Year 1

A/D	Debit	571500 Transfers – Capital	211,500	
	Credit	270000 Obligation Under Long-term Financing Arrangements		211,500
		∗ journal entry to record a transfer equal to the asset addition on a percentage of completion basis $846,000 x 25% = $211,500		

C. Procedures *(continued)*

C13. Accounting Examples *(continued)*

Example 2.1 ***(continued)***

Year 2

A/D	Debit	571500 Transfers – Capital	211,500	
	Credit	270000 Obligation Under Long-term Financing Arrangements		211,500

∗ journal entry to record a transfer equal to the asset addition on a percentage of completion basis

C	Debit	270000 Obligation Under Long-term Financing Arrangements	200,000	
	Credit	253000 Accounts Payable – from Accounts Payable		200,000

∗ invoice or debit memo to initiate construction progress payment when asset reaches 45% completion

Year 3

A/D	Debit	571500 Transfers – Capital	211,500	
	Credit	270000 Obligation Under Long-term Financing Arrangements		211,500

∗ journal entry to record a transfer equal to the asset addition on a percentage of completion basis

Year 4

A/D	Debit	571500 Transfers – Capital	211,500	
	Credit	270000 Obligation Under Long-term Financing Arrangements		211,500

∗ journal entry to record a transfer equal to the asset addition on a percentage of completion basis

C	Debit	270000 Obligation Under Long-term Financing Arrangements	300,000	
	Credit	253000 Accounts Payable – from Accounts Payable		300,000

∗ invoice or debit memo to initiate construction progress payment when asset reaches substantial completion

C. Procedures *(continued)*

C13. Accounting Examples *(continued)*

Example 2.2

GRF accounting entries during use of asset and over term of contract

Year 5 (and beyond)

F	Debit	270000 Obligation Under Long-term Financing Arrangements(3)	6,160	
	Debit	585600 Interest on P3 Obligations(1)	13,840	
	Debit	570000 Transfers - Operating (for operations and maint.)	50,000	
	Debit	570000 Transfers - Operating (for life cycle component)(2)	15,000	
	Credit	253000 Accounts Payable – from Accounts Payable		85,000

∗ invoice or debit memo to initiate annual payment to contractor over the remainder of the P3 contract term

Example 3: Accounting for P3 owned and contracted by Government entity (i.e. Health Authority)

Assumptions:

Government entity owns asset
Government entity has P3 contract with contractor
GRF has cost-shared funding agreement with Government entity
GRF remits payment to Government entity as annual service payments are made

Example 3.1

GRF Accounting entries during construction period

Year 1

D	Debit	571500 Transfers – Capital	211,500	
	Credit	255000 Accounts Payable - General		211,500

∗ debit memo to record a transfer equal to the asset addition on a percentage of completion basis $846,000 x 25% = $211,500

G	Debit	255000 Accounts Payable – General	211,500	
	Credit	255099 Accounts Payable – Previous Years		211,500

∗ Payables in account 255000 at the beginning of each new fiscal year are moved to account 255099 by FSB after the old year is closed

Year 2

D	Debit	571500 Transfers – Capital	211,500	
	Credit	255000 Accounts Payable – General		211,500

∗ debit memo to record a transfer equal to the asset addition on a percentage of completion basis

C. Procedures *(continued)*

C13. Accounting Examples *(continued)*

Example 3.1 *(continued)*

G	Debit	255000 Accounts Payable – General	211,500	
	Credit	255099 Accounts Payable – Previous Years		211,500

∗ Payables in account 255000 at the beginning of each new fiscal year are moved to account 255099 by FSB after the old year is closed

C	Debit	255099 Accounts Payable – Previous Years	200,000	
	Credit	253000 Accounts Payable – from Accounts Payable		200,000

∗ invoice or debit memo to initiate construction progress payment when asset reaches 45% completion

Year 3

D	Debit	571500 Transfers – Capital	211,500	
	Credit	255000 Accounts Payable - General		211,500

∗ journal entry to record a transfer equal to the asset addition on a percentage of completion basis

G	Debit	255000 Accounts Payable – General	211,500	
	Credit	255099 Accounts Payable – Previous Years		211,500

∗ Payables in account 255000 at the beginning of each new fiscal year are moved to account 255099 by FSB after the old year is closed

Year 4

D	Debit	571500 Transfers – Capital	211,500	
	Credit	255000 Accounts Payable - General		211,500

∗ journal entry to record a transfer equal to the asset addition on a percentage of completion basis

G	Debit	255000 Accounts Payable – General	211,500	
	Credit	255099 Accounts Payable – Previous Years		211,500

∗ Payables in account 255000 at the beginning of each new fiscal year are moved to account 255099 by FSB after the old year is closed

C	Debit	255099 Accounts Payable – Previous Years	300,000	
	Credit	253000 – Accounts Payable – from Accounts Payable		300,000

∗ invoice or debit memo to initiate construction progress payment when asset reaches substantial completion

C. Procedures *(continued)*

C13. Accounting Examples *(continued)*

Example 3.2

GRF accounting entries during use of asset and over term of contract

Year 5 (and beyond)

F	Debit	570000 Transfers - Operating (interest at 4%)(1)	13,840	
	Debit	570000 Transfers - Operating (for operations and maint.)	50,000	
	Debit	570000 Transfers - Operating (for life cycle component)(2)	15,000	
	Debit	255000 Accounts Payable - General (capital portion)(3)	6,160	
	Credit	253000 Accounts Payable – from Accounts payable		85,000

∗ invoice or debit memo to initiate annual payments to contractor over the remainder of the P3 contract term

Notes

(1) $346,000 obligation at beginning of year 5 x 4% government's borrowing rate at financial close of the project (interest expense will change each year)

(2) Life cycle payments are made throughout the contract period to be used to repair and maintain the asset or enhance the assets useful life. Payments need to be assessed to determine if they are capital in nature. If payments are capital in nature, they should be capitalized as part of the project, otherwise they should be expensed

(3) $20,000 capital repayment - $13,840 interest = $6,160 (will change each year as a result of change in the interest expense)

D. Definitions

Amortization is a rational and systematic manner of allocating the cost of an asset over its estimated useful life.

Betterments are enhancements to the service potential of a TCA such as:
- an increase in the previously assessed physical output or service capacity;
- a reduction in associated operating costs;
- an extension of the estimated useful life; or
- an improvement in the quality of output.

Cost is the amount of consideration given up to acquire, construct, develop or better a TCA and includes all costs directly attributable to its acquisition, construction, development or betterment, including installing the asset at the location and in the condition necessary for its intended use. The cost of a contributed TCA is considered to be equal to its fair value at the date of contribution.

Life cycle costs consist of cash payments made to the contractor to be used to repair and maintain the asset or enhance the asset's useful life.

Obligation under long-term financing arrangements represent the Government's liability for TCAs acquired through P3s.

Public Private Partnership (P3) is a method of procuring TCAs under a contractual arrangement in which a private contractor:
- provides some or all of the financing for the project;
- designs and builds the TCA, often providing operations and maintenance for the project; and
- receives payments over an extended period of time.

Repairs and Maintenance are ongoing activities to maintain a TCA in operating condition. They are required to obtain the expected service potential of a TCA over the estimated useful life. Costs for repairs and maintenance are expensed.

Tangible Capital Assets (TCAs) are non-financial assets having physical substance that:
- are held for use by the Government in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other TCAs;
- have useful lives extending beyond a year and are intended to be used on a continuing basis; and
- are not intended for sale in the ordinary course of operations.

D. Definitions *(continued)*

Work-in-progress (WIP) is the accumulation of capital costs for partially constructed or developed projects.

E. References

1300 Tangible Capital Assets
3200 Government Transfers

Public Sector Accounting Handbook
PS 3150 Tangible Capital Assets
PS 3410 Government Transfers
PSG2 Leased Tangible Capital Assets

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