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AAN IPSASB
BETREFT Comments IPSAS consultation paper 'Service Concession Agreements'

1 Introduction

We warmly welcome the initiative by IPSAS to produce this consultation paper in order to make Service Concession Agreements (SCAs) more transparent in government accounting and financial reporting. The setting of standards is an important step in that direction. We also think that the standards should lead to a situation in which SCAs are regarded as part of governments (long term) liabilities, where appropriate. This will help to ensure that SCAs – as a means to provide public services - are not chosen for the wrong reason, namely to meet fiscal targets and EMU criteria of public debt. In order to reach this goal the financial reporting standards should be, as far as possible, in line with for example the EU-statistical criteria in this respect. It is not clear if this is the case. We suggest to pay explicit attention to this aspect.

2 General remarks

In our view, SCAs are a quite complex reporting issue. The understandability of a future standard would highly benefit from inclusion of flowcharts, like the current flowcharts 1 and 2. These flowcharts could be designed for every major reporting-decision topic related to SCAs.

Furthermore, we suggest to include an explicit statement in the introduction of the standard, in which it is emphasized that the starting point for the reporting decisions to be taken is formed by a careful analysis of the terms, conditions and risks of every single specific SCA.

A future standard would also gain in clarity by describing different SCA-cases and the way they should be represented in the financial report, according to the reporting principles included in the proposed standard.



3 Different kinds of PPP

We agree with the description of different types of PPP. It is relevant and useful. However it is not clear what the categories mean in terms of the control criteria in the paper. Do all of the PPP-types fall within the criteria of control by government or are there distinctions to be made?

Also we would like to point out that there are other types of PPP, in which public and private parties closely co-operate in for example a SPV (Special Purpose Vehicle). We think it is relevant to note that these other kind of PPP's can occur in combination with SCA's and all sorts of other traditional and new types of contracts and financial relationships (examples: stocks, guarantees, subsidies, loans) between public and private parties. There is a lack of transparency of these 'PPP's' in general and in particular of interlinked risks, of which public parties usually take the burden. It is practical to limit the standards under consultation to SCA's but we warmly recommend these other PPP's and their complex financial relationships as a subject of future activities to IPSAS.

4 Focus on balance sheet

The paper is focused on the balance sheet of financial reporting. The risks that are present in SCA's only play a role in deciding which party is in 'control' and therefore should represent the value of the assets and liabilities of the contracted entity on it's balance sheet. In our experience there is also much to be gained if government would be more transparent in it's financial reporting – more specifically, in the disclosures - about the (public) risks that are involved with SCA's. Especially in these kind of contracts it is possible to quantify at least a large part of the risks, since they should be made explicit in the agreement anyway. In the disclosure to the financial statement there should be systematic information about the SCA's, the division of responsibilities and the risks involved for the public party. We recommend that the IPSAS standards also give guidelines for these aspects. A problem with the explicit mentioning of risks could be corporate confidentiality. The standards should also give guidance on how to deal with this problem.

In the paper a few important risks are mentioned. We think there should be a more extensive overview of types of risks involved with these contracts. We would like for instance to add the so-called interface risks.¹

5 Stability of contracts

One special risk is the risk of having to renegotiate the contract. The paper supposes a sort of stable situation in which the contract as it is at a certain point in

¹ Risks that are related to the performance by other (public) parties or other projects on which the performance of the SCA is dependent.



time is the basis for deciding whether it should be represented in the balance sheet and also deciding on the value of it. We would like to point out that investigations of for example the British NAO show that most PPP-contracts are renegotiated within a few years after the first closure. This can influence the outcome of the 'control' criterion, the (residual) value of the assets concerned and also the risk profile that remains for the parties involved. The paper should also give guidance on how to deal with the issues that follow from this, such as uncertainty of the residual value of the asset, uncertainty on future debts, etc.

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6 Specific Matters for Comment

SMC 1:

We consider the control criterion a suitable candidate, but we suggest to be more explicit about the reasons why the control criterion is preferred to the economic risks and rewards approach, as it is used by Eurostat.

SMC 2:

In case of 'separable payments', initial measurement of the asset and the related liability should be based on fair value or, if lower, the present value of the scheduled construction payments. This would imply that, in case the fair value of the asset is lower than the present value of the construction payments, the liability would be measured at an amount lower than this present value. We suggest to reconsider the proposal in the light of this possible consequence.

SMC 3:

We tend to agree with this proposal. There is, however, one aspect that needs some further clarification, and maybe also reconsideration. The question whether the property is fully operational, is not just depending on the grantor providing access, but also on the operator actually using the property. We would propose to strictly connect revenue recognition with the performance of the grantor, that is, has the grantor provided access. Otherwise, revenue recognition would have to be postponed –or interrupted- in cases where property is not operational due to circumstances exclusively on the operators side.

Yours sincerely,

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