ACCOUNTING STANDARDS BOARD

GUIDELINE ON ACCOUNTING FOR PUBLIC-PRIVATE PARTNERSHIPS

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GUIDELINE ON ACOUNTING FOR PUBLIC-PRIVATE PARTNERSHIPS

Objective and authority of this Guideline

In accordance with section 89 of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), the Board's functions include the preparation and publication of directives and guidelines on the Standards of GRAP. While Standards of GRAP set out the recognition, measurement, presentation and disclosure requirements for financial reporting in the public sector, guidelines explain and expand on the principles in the Standards of GRAP. Guidelines do not, however, replace any of these principles.

This Guideline outlines the Board's views on accounting for public-private partnership (PPP) agreements by a public sector entity (entity) in terms of the accrual basis of accounting. The Guideline incorporates principles in the applicable Standards of GRAP. This Guideline illustrates the proposed accounting by an entity that is the grantor under the PPP agreement. The operator in a PPP agreement, whether a public sector entity or a private sector entity, should consider the IFRIC Interpretation on *Service Concession Arrangements* (IFRIC® 12), that was issued by the IFRS® Interpretations Committee in November 2006.

The Guideline addresses the accounting and reporting of assets, liabilities, revenue and expenditure by the grantor under a PPP agreement.

This Guideline applies to both:

- assets that the private party needs to construct, develop or acquire from a third party to perform the requirements under the PPP agreement; and
- existing assets to be used in terms of the PPP agreement.

Application of this Guideline

The Board must determine GRAP for:

(a) departments (including national, provincial and government components);

(b) public entities;

(c) trading entities (as defined in the PFMA);

(d) constitutional institutions;

(e) municipalities, municipal entities or any other entities under the ownership control of a municipality and boards, commissions, companies, corporations, funds; and

(f) Parliament and the provincial legislatures.

The above are collectively referred to as "entities" in Standards of GRAP.

The Board has approved the application of International Financial Reporting Standards (IFRS® Standards) issued by the International Accounting Standards Board® for:

(a) public entities that meet the criteria outlined in the Directive on *The Selection of an Appropriate Reporting Framework by Public Entities;* and

(b) entities under the ownership control of any of these entities.

Those entities that are not required to comply with the Standards of GRAP may find the principles in this Guideline useful in determining the appropriate financial reporting of similar agreements, whether they act as a grantor or as an operator.

1. BACKGROUND TO PUBLIC-PRIVATE PARTNERSHIP AGREEMENTS

Objective of this section

1.1 An increasing number of public sector entities have in recent years made use of the capacity and skills of private sector entities to assist with their service delivery needs.

1.2 PPP agreements are an alternative to the traditional procurement methods used by public sector entities. PPP agreements are aimed at improving value for money through high quality services, resulting in a net benefit to the entity in cost, price, quality or risk transfer, or a combination thereof. The infusion of private capital and management can ease fiscal constraints, increase efficiency and lead to better quality services for citizens.

1.3 This section provides background information on what a PPP agreement entails. It explains, amongst other things, the characteristics, the sharing of risks, the parties involved and the various funding structures in a PPP agreement.

Characteristics of a PPP agreement

1.4 A PPP can generally be described as an agreement between a public sector entity and a private sector institution (private party). In terms of this the private party assumes some substantial financial, construction, technical and operational risks in the design, financing, building and operation of a project. It typically involves a private party that supplies an asset and/or services that previously were developed or provided by an entity. The private party provides a service to the public on behalf of the entity through the use of assets and/or the management of such an asset. In return, the private party is rewarded through payments from the entity. Such payments are based on service outputs delivered to specification, charges to users of such services, or a combination of these.

1.5 Other common features that may be covered in a PPP agreement include:

- The agreement may stipulate the level or standards of the services required during the period and any assets to be used in providing such services.
- The private party assumes responsibility for some, or all, of the management of the assets and related services.
- The PPP agreement may govern the initial prices charged for services provided by the private party. It may also regulate the price revisions over the life of the agreement.
- The agreement may govern the design, building and financing of an asset to be used by the private party. The agreement may place restrictions on how the asset shall be used.
- The PPP agreement may include arrangements to transfer the assets used in the PPP agreement at its conclusion. This may include the legal passing of title

to the private party for a fixed or nominal price, irrespective of which party initially financed the asset.

Defining a PPP

1.6 Certain acts in South Africa deal with the establishment and functioning of PPP agreements in the public sector environment. The Treasury Regulations, issued under the PFMA, define a public-private partnership as a commercial transaction between an institution and a private party in terms of which the private party:

(a) performs an institutional function on behalf of the institution; and/or

(b) acquires the use of state property for its own commercial purposes; and

(c) assumes substantial financial, technical and operational risks in connection with the performance of the institutional function and/or use of state property; and

(d) receives a benefit for performing the institutional function or from utilising the state property, either by way of:

(i) consideration to be paid by the institution which derives from a Revenue Fund or, where the institution is a national government business enterprise or a provincial government business enterprise, from the revenues of such institution;

(ii) charges or fees to be collected by the private party from users or customers of a service provided to them; or

(iii) a combination of such consideration and such charges or fees.

1.7 The definition of a PPP agreement in the Regulations issued under the Municipal Finance Management Act, Act No. 56 of 2003 (MFMA), is similar to the definition in the Treasury Regulations to the PFMA. The MFMA Regulations define a PPP agreement as a commercial transaction between a municipality and a private party in terms of which the private party:

(a) performs a municipal function for or on behalf of a municipality or acquires the management or use of municipal property for its own commercial purposes, or both performs a municipal function for or on behalf of a municipality and acquires the management or use of municipal property for its own commercial purposes; and

(b) assumes substantial financial, technical and operational risks in connection with:

(i) the performance of the municipal function;

(ii) the management or use of the municipal property; or

(iii) both; and

(c) receives a benefit for performing the municipal function or from utilising the municipal property or from both, by way of:

(i) consideration to be paid or given by the municipality or a municipal entity under the sole or shared control of the municipality;

(ii) charges or fees to be collected by the private party from users or customers of a service provided to them; or

(iii) a combination of the benefits referred to in subparagraphs (i) and (ii).

Parties involved in a PPP agreement

1.8 The definition of a PPP agreement in the Regulations to the PFMA and MFMA identifies the involvement of two parties to the agreement, a public sector entity and a private party.

1.9 Public sector entities are collectively referred to as "entities", as explained in the section "Application of this Guideline".

1.10 The Regulations define a private party as a party to a PPP agreement, other than:

(a) an institution to which the PFMA applies;

(b) a municipality or municipal entity under the ownership control of one or more municipalities; or

(c) the accounting officer, accounting authority or other person or body acting on behalf of an institution, municipality or municipal entity referred to in (a) or (b).

Categories of PPP agreements

1.11 The definition of a PPP agreement in the PFMA and the MFMA identifies two broad categories of PPP agreements - one where the private party performs an institutional function on behalf of the entity, and the other where the private party acquires the use of state property for its own commercial purposes. The PPP agreement can also be a combination of these.

Institutional function

1.12 In a PPP agreement involving an institutional function, the private party will perform part of an entity's service delivery or administrative functions and assume the associated risks. The essence of these types of PPP agreements is the provision of services that may or may not include the construction of an asset, or the use of an existing asset that will allow the private party to deliver the specified service.

1.13 Under this category, the private party is rewarded for providing the service by compensation from the relevant revenue fund, the entity's own resources, from user charges or a combination of these sources.

Use of state property

1.14 In a PPP agreement involving the use of state property, the entity transfers the right to use a specified asset to the private party for a specific period. During the term of the PPP agreement, the private party uses the asset, whether an existing asset or an asset to be developed or constructed, for its own commercial purpose. The entity may share a percentage of the revenue generated by the private party.

1.15 An example of such a PPP agreement is the De Hoop Nature Tourism Development Project with the Western Cape Nature Conservation Board. The entity made no contribution towards the development or construction of the asset. In fact, the private party was responsible for providing the capital and other expenditure requirements of the project.

Institutional function and use of state property

1.16 An entity can also enter into a PPP agreement that involves a combination of an institutional function and the use of state property. For example, a private party and an entity may enter into a PPP agreement that requires the private party to operate and maintain an X-ray facility in a ward at a public hospital on behalf of the department of health. Apart from performing the institutional function, the private party is allowed the use of the X-ray facility for its own commercial use.

Risk characteristics of a PPP agreement

1.17 A PPP agreement often involves complex risks that are shared between the entity and the private party. The private party usually assumes substantial financial, technical and operational risks in connection with the performance of the institutional function and/or use of state property. The compensation of the private party is often based on a payment mechanism that provides for penalties when under or non-performance of agreed deliverables occurs.

1.18 Common risks associated with a PPP agreement include the following:

- *Financial risk*. Such risk arises if and when the entity is unable to obtain funding needed for the project or when interest rates charged impact adversely on the financial viability of the project. This might arise from the circumstances of the specific entity or the private party due to, for example, the credit status or debt limitations of the party involved or investor perceptions of the risks of a project. Other financial risks include inflation and exchange rates.
- *Technical and operational risks*. These include a broad range of risks involved in providing the service, e.g. price increases or shortages of input materials, increases in labour costs, damage as a result of natural disasters, and costs resulting from maintenance and obsolescence, amongst others.
- *Demand risk*. This relates to the variability in the amount of services required or consumed by users, the risk that the demand for the service is less than projected.
- *Availability risk*. This involves insufficient output being delivered under the PPP agreement, e.g. as a result of inadequate management or failure to meet the required quality standards.

- *Construction risk*. This includes various issues that can arise during the construction phase of a project, such as budget overruns, building material defects, construction delays, safety regulations, structural design risks, technical deficiencies, health risks, worksite accidents and other catastrophic events.
- *Residual value risk*. This risk arises from the market price of the asset used in the PPP agreement varying from the original expectation.

1.19 Under a PPP agreement, risks are allocated between the entity and the private party. This is usually done on the basis of which party can best manage the risks in specific circumstances.

Funding structures in a PPP agreement

1.20 Some PPP agreements are highly capital intensive and require the private party to obtain specific funding to perform the service, or to construct or develop an asset to give effect to the requirements of the PPP agreement.

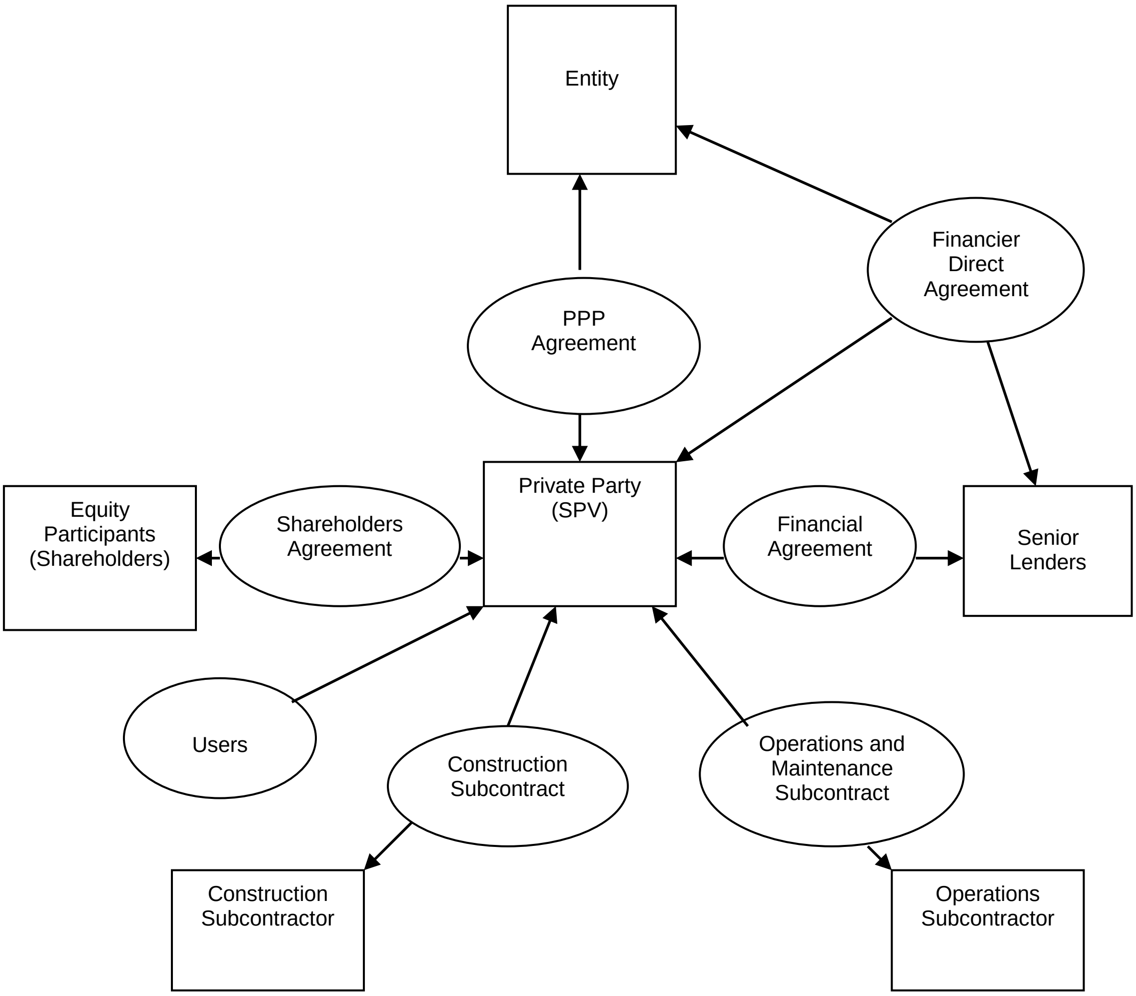
1.21 Projects are normally funded by the private party from its own resources in the case of PPP agreements that are not highly capital intensive. This includes raising loans from corporate finance transactions, through a capital contribution by the entity, or a combination of both.

Project finance

1.22 Financing for PPP agreements can be raised by the private party in various ways, including capital contributions or third party finance. A special purpose vehicle (SPV) may be established to provide a vehicle through which the funding is channelled.

1.23 A SPV is established to ring-fence the project and/or the finance for the asset. A SPV performs the provisions under the PPP agreement. Substantial funding is normally provided by lenders, who will look primarily to the cash flows to be generated from the project to service the debt.

1.24 The diagram below illustrates a PPP agreement where a SPV is established:



1.25 The private party is responsible for exercising the rights and performing the obligations under the PPP agreement through a SPV.

1.26 Shareholders invest in a SPV either in the form of shares or shareholder loans. Agreements are entered into between the shareholders and a SPV.

1.27 n SPV may procure a large portion of the funding from external lenders. Lenders are typically given step-in rights in the financial agreements. These rights are exercised in the event of non-performance by a SPV.

1.28 A SPV will enter into agreements with construction, operation and maintenance subcontractors. Such subcontractors are the service providers responsible for the construction of any assets and/or the operation and maintenance of the asset under the PPP agreement.

1.29 For more guidance on the establishment of a SPV reference should be made to the manual on Standardised Public Private Partnership Provisions and the Public-private Partnership Manual issued by the National Treasury (see www.ppp.gov.za).

Corporate finance projects

1.30 In a corporate finance structure, the private party arranges the funding necessary to meet the capital and other expenditure requirements of the project from its own resources.

1.31 For more information on the various funding structures in a PPP agreement, reference should be made to the manual on Standardised Public Private Partnership Provisions and the Public-private Partnership Manual issued by the National Treasury (see section C of the Preface to the manual).

Contributions by the entity

1.32 Some PPP agreements may require contributions to the private party that could take the form of an interest by the entity that can result in an investment (also refer to section 9). An example of such an arrangement is the PPP agreement between the state vaccine institute and the department of health in KwaZulu Natal. This arrangement required the department to make a contribution to the state vaccine institute for the capital costs of the project. This contribution resulted in the department having an investment in the state vaccine institute.

1.33 Reference should also be made to the Standards of GRAP on *Consolidated and Separate Financial Statements* (GRAP 6), *Investments in Associates* (GRAP 7) and *Financial Instruments* (GRAP 104) for guidance on how the entity accounts for such capital contributions made. The contribution is either accounted for as an investment, an investment in an associate or an investment in a controlled entity, based on the degree of control or significant influence over the investee's financial and operating policies.

Compensation provisions in a PPP agreement

1.34 In some PPP agreements, the private party receives compensation from the entity when performing its obligations under the PPP agreement. This compensation can be made in various ways, as explained in paragraphs 1.7 and 1.8. The Treasury Regulations issued under the PFMA and MFMA allow for the benefit to be either by way of:

- compensation to be paid by the entity, e.g. from the resources of such an entity (unitary payment); or
- charges or fees to be collected by the private party from users or customers of a service provided to them, e.g. where the private party collects toll fees from the users of a toll-road; or
- a combination of the above.

Unitary payment

1.35 The PPP definition in the Treasury Regulations requires the payment of a benefit to the private party for performing the services. This benefit is referred to as a unitary payment in the National Treasury Standardised PPP Provisions Manual. A unitary payment is a charge payable by the entity to the private party in connection with the performance of the private party's obligations included in project deliverables.

1.36 The PPP agreement normally specifies the levels of service required from the private party over the period of the contract, and the private party's basic responsibilities for the delivery of services. Unitary payments are due when the conditions of the PPP agreement are met.

1.37 The frequency of unitary payments is also established by the PPP agreement, monthly, quarterly or annually.

1.38 The unitary payments may comprise compensation for services and/or the development or construction of an asset, depending on the nature of the PPP agreement.

1.39 The unitary payments can be made by a transfer from the relevant revenue fund, from the entity's own resources, or a combination of these.

Charges or fees to be collected by the private party from users

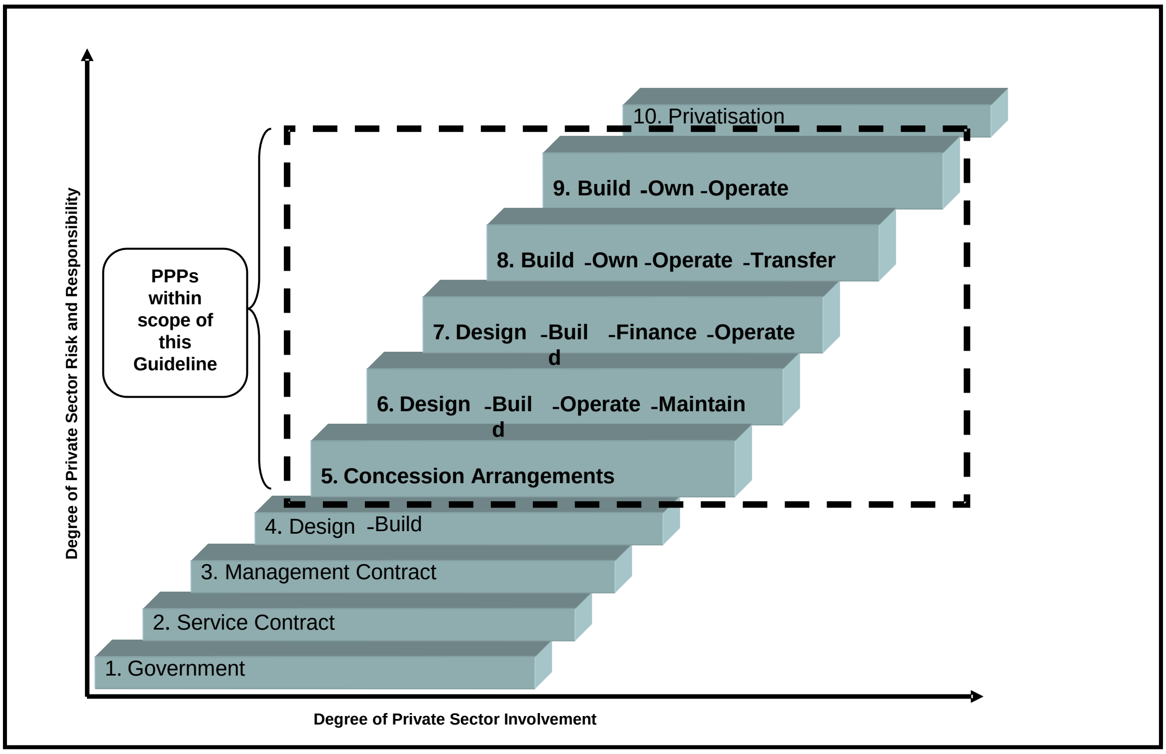
1.40 Compensation to the private party can also be in the form of charges received from users, e.g. the private party retains and collects toll fees from managing a toll road. In some instances, the entity guarantees the minimum fees to be received by the private party. The PPP agreement may also set a limit on the amount of user charges the private party is entitled to retain. Amounts received in excess of that limit are paid over to the entity.

Reduction of unitary payment for user charges collected

1.41 Unitary payments can also consist of a combination of transfers from the relevant revenue fund or from the entity's own resources and can be reduced by the collection of user charges by the private party. For example the entity can partly compensate the private party for the development or construction of a toll road. After the construction of the toll road, the private party charges toll fees to the users of the toll road for the remaining term of the PPP agreement.

2. PPP AGREEMENTS WITHIN THE SCOPE OF THIS GUIDELINE

2.1 Types of PPP agreements are often distinguished by the extent of private sector involvement and risks shared between the entity and the private party. As mentioned previously, PPP agreements are a different form of procurement. There are, however, other methods of involving the private party in the delivery of a service on behalf of an entity. The diagram below illustrates a hierarchy of the more common procurement methods by an entity from a private party. The type of agreements that are within the scope of this Guideline are identified below:



2.2 Guidance on accounting for agreements that are not included in the scope of this Guideline can be obtained in other Standards of GRAP. For example, a service and management contract is similar to other vendor service contracts. These agreements may be referred to as “outsourcing” or “contracting-out” agreements. In such agreements, the related expenditure is reported as an expense by the entity as and when these services are provided by the private party. The risk and responsibility for the delivery of the service remains largely with the entity. Design-build agreements should be accounted for similarly to other types of construction-related contracts, with the asset being reported as appropriate, based on the principles in the applicable Standard of GRAP, for example, the Standard of GRAP on *Property, Plant and Equipment* (GRAP 17). In such agreements, ownership of the asset remains with the entity, together with the majority of the risks, responsibilities and control of the asset and the services being delivered.

Concession agreements

2.3 In a concession agreement, the entity transfers the right to provide services to the public through the use of an asset to the private party. The private party in turn assumes an obligation to provide such services, normally in accordance with performance requirements set by the entity. Compared to service or management contracts, operation concession agreements have a much longer term, often so that the private party can earn an acceptable rate of return on its investment. Examples of this type of PPP agreement include toll roads (for example the SANRAL concession) and hospitals (for example the Inkosi Albert Luthuli hospital and the Western Cape Rehabilitation/Lentegeur hospital).

Design-build-operate-maintain and design-build-finance-operate agreements

2.4 In a design-build-operate-maintain (DBOM) agreement, the aspects of design-build agreements are combined with those of concession agreements. The private party assumes the risk of constructing an asset along with the risk of its operation and maintenance.

2.5 In a design-build-finance-operate (DBFO) agreement, the private party designs and builds the asset, finances the construction costs, and provides the associated services. The asset is normally returned to the entity at the end of the agreement.

2.6 The difference between a DBOM and DBFO agreement lies in the allocation of the financing risk to the private party. In both cases, the asset is returned to the entity at the end of the arrangement. An example of these types of PPP agreements are the 25 year PPP agreement between the department of correctional services and a private party in terms of which the private party has to design, finance, maintain and operate two prisons. Other examples include head office accommodation projects such as the PPP agreement undertaken by the Department of Education.

Build-own-operate-transfer and build-own-operate agreements

2.7 In a build-own-operate-transfer (BOOT) agreement, ownership of the constructed asset rests with the private party until the end of the agreement, when ownership is transferred to the entity. Thus, in addition to the risks and responsibilities that are allocated in a DBFO agreement, the risk and responsibilities related to the asset are also allocated to the private party during the life of the agreement. A build-own-operate (BOO) agreement differs from a BOOT agreement in that the private party is not required to transfer ownership of the constructed asset back to the entity.

3. APPROACH TO ACCOUNTING FOR PPP AGREEMENTS

3.1 Financial reporting of the asset used in a PPP agreement based solely on its legal ownership may not result in fair presentation of the financial effects of the agreement. Fair presentation requires a proper understanding of the substance rather than the legal form of the PPP agreement which varies from agreement to agreement.

3.2 The objective of this section is to explain the approach to be adopted in accounting for PPP agreements. Guidance will be provided on the recognition of the assets and the entity's related obligation (where appropriate) under the prescribed approach. The approach adopted should be applied to all assets that are acquired, constructed or developed in terms of the PPP agreement, or any existing assets, whether owned by the entity or private party, prior to entering into the agreement.

Accounting for PPP agreements

3.3 Many countries currently apply their existing authoritative accounting and financial reporting guidance, such as their general accounting framework and leasing standards, to account for the assets and the related obligation (where appropriate) in PPP agreements. Some standard-setting bodies have issued or are proposing specific guidance on the accounting for PPP agreements. These bodies use either a control approach or a risk and rewards approach. This section of the Guideline analyses when either the control or the risks and rewards approach should be applied.

Local pronouncements

3.4 The *Framework for the Preparation and Presentation of Financial Statements*[1] sets out the principles on which the Standards of GRAP are based. The *Framework for the Preparation and Presentation of Financial Statements* [1] also sets out the concepts that underlie the preparation and presentation of financial statements.

3.5 The *Framework for the Preparation and Presentation of Financial Statements* [1] defines an asset as a resource controlled by an entity as a result of past events and from which economic benefits or service potential is expected to flow to the entity. The *Framework for the Preparation and Presentation of Financial Statements* [1] notes that many assets are associated with legal rights, including the right of ownership, and goes on to clarify that the right of ownership is not essential. To achieve faithful representation, the *Framework for the Preparation and Presentation of Financial Statements* [1] requires that transactions and other events are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The principles of the *Framework for the Preparation and Presentation of Financial Statements* [1] require an asset to be accounted for by the party that controls it using the overriding principle of "substance over form".

[1] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

Conversely, an entity cannot recognise an asset it does not control. The *Framework for the Preparation and Presentation of Financial Statements* [1] therefore adopts a control approach.

3.6 The principles in the Standards of GRAP relating to assets apply a control approach to the recognition of assets.

3.7 The Standard of GRAP on *Leases* (GRAP 13), however, adopts a risk and rewards approach. GRAP 13 defines a lease as an agreement whereby the lessor conveys to the lessee, in return for a series of payments, the right to use an asset. The classification of a lease is based on the extent to which the risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee.

Private sector pronouncements

3.8 IFRIC 12 gives guidance to the private party on accounting for assets associated with PPP agreements. The IFRIC Interpretation considered the nature of the rights conveyed to the operator in a PPP agreement. The IFRIC Interpretation concludes that a control approach should be applied in determining which party should account for the assets that are used, developed or constructed in a PPP agreement.

3.9 IFRIC 12 is applied by the private party when:

- the entity controls or regulates what services the private party must provide with the associated asset, to whom the service should be provided and at what price; and
- the entity controls, through ownership, entitlement or otherwise, the significant residual interest in the asset at the end of the agreement.

3.10 An exemption to meeting both these criteria is for whole-of-life agreements where only the first criterion needs to be met.

3.11 IFRIC 12 applies when the private party is required to construct or develop an asset for the purpose of the PPP agreement or when the entity gives the private party access to its existing assets to be upgraded and maintained for the duration of the PPP agreement. IFRIC 12 does not apply when the private party is required to use, and maintain ownership of its own assets during and at the end of the PPP agreement, e.g. movable assets of which the private party retains ownership during and at the end of the agreement.

3.12 IFRIC 12 concludes that the treatment of an asset that the private party constructs or acquires, or to which the entity gives the private party access for the purpose of the PPP agreement, should be determined by whether or not it is controlled by the entity in the manner described in paragraph 3.9. If it is so controlled, then regardless of which party has legal title to it during the agreement, the asset should not be recognised by the private party since the private party does not control the use of the asset.

3.13 IFRIC 12 applies a control approach to determine the recognition of the assets to be used in a PPP agreement. The International Accounting Standard on *Leases* (IAS® 17) considers the transfer of risks and rewards incidental to ownership of the asset. IFRIC 12 refers to the IFRIC Interpretation on *Determining whether an Arrangement contains a Lease* (IFRIC® 4) as justification for not considering the allocation of risk and rewards in its approach to report the asset considered in the PPP agreement. IFRIC 4 states that an agreement is a lease if it conveys the right to control the use of the underlying asset. The agreement will not be accounted for as a leased asset by the private party since the party is deemed not to have control over the use of the asset in a PPP agreement that falls within the scope of IFRIC 12. Instead, the private party has access to operate the asset to provide the service on behalf of the entity in accordance with the terms specified in the agreement.

3.14 IFRIC 12 concludes that the asset to be recognised by the private party represents the consideration it receives for its services, as opposed to the asset it constructs, upgrades, or accesses as part of the agreement. IFRIC 12 requires the private party either to:

- report a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the entity; or
- report an intangible asset to the extent that it receives a right to charge users of the service, that is, there is no unconditional right to receive cash or another financial asset because the amounts are contingent on the extent that the public uses the service.

Approach adopted in this Guideline

3.15 The Standard of GRAP on *Revenue from Non-exchange Transactions (Taxes and Transfers)* (GRAP 23) states that *control of an asset* arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives, and can exclude or otherwise regulate the access of others to that benefit. GRAP 23 requires that the ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity's assets from those public goods that all entities have access to and from which they benefit.

3.16 Assets are associated with legal rights, including the right of ownership. In determining whether or not an entity should recognise the asset, the right of ownership is not essential. Although the capacity of an entity to control benefits is usually the result of legal rights, the asset may nonetheless satisfy the definition of an asset even when there is no legal ownership.

3.17 Furthermore, entities that have custody of an asset may not have all the legal rights of ownership, such as the right to sell it. There may also be restrictions on the entity's use of the asset. This does not necessarily mean, however, that the entity does not control access to future economic benefits or service potential. The entity does not need unlimited power over the physical item to satisfy the requirement for control. It is rights of use to future economic benefits or service potential that need to be controlled.

3.18 IFRIC 12 concludes that for a PPP agreement to fall within its scope the private party does not control the use of the asset. Instead it has access to operate the asset to provide the service in accordance with the terms specified in the agreement. This implies that the entity controls the use of the asset.

3.19 The private party, however, still manages the use and operational aspects of the asset. For example, in a toll-road PPP agreement, the agreement may specify certain conditions that the private party must comply with. How such conditions are met is left to the discretion of the private party.

3.20 Appendix A includes explanatory guidance on the differences between the control approach and the risk and rewards approach.

3.21 This Guideline adopts the control approach in determining whether the entity should account for the asset and related obligation in a PPP agreement. This approach is in line with the definition of an asset in the *Framework for the Preparation and Presentation of Financial Statements* [1].

3.22 Under the control approach adopted in this Guideline, an entity uses the following criteria to determine whether it controls the use of the underlying asset in the PPP agreement:

- The entity controls or regulates what services the private party must provide with the associated asset, to whom it must provide them and at what price.
- The entity controls - through ownership, beneficial entitlement or otherwise -any significant residual interest in the asset at the end of the agreement.

3.23 The control approach should be applied to assets that are developed, constructed, acquired or used in terms of PPP agreements. These assets are used by the private party to perform part of an entity's service delivery or administrative functions (institutional function).

3.24 The control approach should also be applied to PPP agreements where the entity provides the private party with an existing asset, and the private party upgrades, operates and maintains the asset for a specified period of time. If the PPP agreement requires the private party to use its own asset, the entity should only recognise the asset in its financial statements if both the control approach criteria are met.

3.25 Whole-of-life assets also fall within the scope of the approach adopted in the Guideline. In applying the control approach criteria to whole-of-life assets that are developed, constructed, acquired or used in terms of PPP agreements where the private party performs an institutional function, only the first criterion has to be met. This is because the asset will have been controlled by the entity for its entire useful life leaving no significant residual interest.

PPP agreements where the control approach criteria are not met

3.26 If one or both of the control approach criteria are not met by the entity, the next step is to consider the principles in IFRIC 4 to determine whether the agreement constitutes a lease. This typically applies to PPP agreements that involve the use of state property. Under such agreements, the entity does not normally control or regulate what services the private party must provide with the associated asset, to whom it must provide the service and at what price. Instead, the private party uses the asset for its own commercial purposes and the entity only controls a significant residual interest in the asset.

3.27 If it is concluded that the agreement constitutes a lease, the principles in GRAP 13 should be considered to determine whether the lease should be classified as a finance lease or an operating lease.

3.28 GRAP 13.26 requires that if the agreement is classified as a finance lease, the entity should recognise an asset and a lease liability in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments.

3.29 However, if the agreement is classified as an operating lease, GRAP 13.40 requires that the lease payments should be recognised as an expense in the statement of financial performance on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

3.30 If, after applying the principles in IFRIC 4, the entity concludes that the PPP agreement does not constitute a lease, then any payments made to the private party under the agreement should be expensed as incurred, similar to a service contract.

3.31 If the agreement does not constitute a lease agreement in terms of IFRIC 4 then any assets previously owned by the entity at the commencement of the PPP agreement should be derecognised in accordance with the principles in the applicable Standard of GRAP (for example GRAP 17).

IFRIC Interpretation on *Determining whether an Arrangement contains a Lease*

3.32 IFRIC 4 assists an entity to determine whether an agreement contains a lease, requires an entity to consider the substance over the form of the agreement. The entity needs to assess whether:

(a) fulfilment of the agreement is dependent on the use of a specific asset or assets; and

(b) the agreement conveys the right to use the asset or assets.

3.33 In the case of a PPP agreement, the second determining factor should be considered. IFRIC 4 states that an agreement conveys the right to use the asset if the agreement conveys to the lessee (the entity) the right to control the use of the underlying asset. One of the conditions, which determine that the right to control the use of the underlying asset is conveyed, is if the lessee has the ability or right to operate the asset or direct others to operate the asset in a manner it determines while obtaining or controlling a significant amount of the output or other use of the asset.

3.34 The entity needs to assess whether the agreement contains a lease at the inception of the agreement, being the earlier of the date of the agreement and the date of commitment by the parties to the principal terms of the agreement. This assessment should be based on all the facts and circumstances that exist at the inception of the lease.

3.35 IFRIC 4 concludes that, if an agreement contains a lease, the parties to the agreement shall apply the requirements of IAS 17 to the lease element of the agreement. The requirements in the IAS 17 are similar to the requirements in GRAP 13, except that GRAP 13, in addition, deals with public sector specific issues. Entities should, therefore, refer to GRAP 13.

Classification of a lease as either a finance lease or as an operating lease

3.36 If it is decided that the PPP agreement constitutes a lease, it is necessary to determine whether the lease is a finance or operating lease.

3.37 As mentioned above this decision is based on the extent to which risks and rewards incidental to the ownership of a leased asset are transferred to the private party. GRAP 13 requires that a lease should be classified as a finance lease if the agreement transfers substantially all the risks and rewards incidental to ownership to the lessee. If not, the lease should be classified as an operating lease.

3.38 The decision on the type of lease is based on the substance of the transaction rather than the legal form of the contract. GRAP 13 provides the following examples of situations which would normally lead to a lease being classified as a finance lease, even though not all the criteria have to be met:

(a) The lease transfers ownership of the asset to the lessee by the end of the lease term.

(b) The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable, so that at the inception of the lease it is reasonably certain that the option will be exercised.

(c) The lease term is for the major part of the economic life of the asset even if title is not transferred.

(d) At the inception of the lease, the present value of the minimum lease payments amount to at least substantially all of the fair value of the leased assets.

(e) The leased assets are of a specialised nature such that only the lessee can use them without major modifications being made.

(f) The leased assets cannot easily be replaced by other assets.

3.39 Other criteria that individually or in combination could lead to a lease being classified as a finance lease are:

(a) if the lessee can cancel the lease, and the lessor's losses associated with the cancellation are borne by the lessee;

(b) gains or losses from the fluctuation in the fair value of the residual fall to the lessee (e.g. in the form of a rent rebate equaling most of the sales proceeds at the end of the lease); and

(c) the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

4. FINANCIAL REPORTING WHEN THE CONTROL APPROACH CRITERIA ARE MET

4.1 This section deals with the recognition and measurement principles for assets and related obligations when the entity concludes that the underlying asset should be recognised in its financial statements based on the control approach criteria.

Recognition of the assets

4.2 Once it is concluded that the underlying assets in the PPP agreement should be recognised by the entity, the entity considers when those assets should be recognised.

4.3 Guidance on when to recognise assets is provided in the applicable Standards of GRAP. For example, GRAP 17.07 requires an item of property, plant and equipment to be recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the asset will flow to the entity; and
- the cost or fair value of the asset to the entity can be measured reliably.

4.4 Similar principles apply to recognising other assets such as inventory, investment property, intangible assets or heritage assets (see the Standards of GRAP on *Inventories* (GRAP 12), *Investment Property* (GRAP 16), *Intangible Assets* (GRAP 31) or *Heritage Assets* (GRAP 103)).

4.5 The probability that future economic benefits or service potential associated with the asset will flow to the entity is determined on the basis of the available evidence at the time of initial recognition. Existence of sufficient certainty that future economic benefits or service potential will flow to an entity typically requires an assurance that the entity will receive the rewards attaching to the asset and the undertaking of the associated risks. For movable assets, this assurance is usually available when the risks and rewards have passed to the entity. The transaction to acquire the asset can usually be cancelled without significant penalty before risks and rewards are passed to the entity. This will preclude the passing of the associated risks and rewards to the entity.

4.6 Some PPP agreements may require the development or construction of assets that will be completed over a number of years. Under such circumstances, even though the private party is responsible for the development or construction of the asset, the entity should be able to reliably estimate the percentage of construction completed at the reporting date. The entity should therefore recognise assets under construction while they are being constructed.

4.7 The entity may make a contribution to the private party at the inception of the PPP agreement to enable the private party to start functioning under the PPP agreement.

These contributions may take a number of forms but normally are a cash payment. If the payment relates to the development or construction of an asset that are controlled by the entity in terms of the control approach criteria, the contribution should be included in the cost of the developed or constructed asset. These contributions are then recognised prepayments that are reduced and recognised as work in progress as and when the construction of the assets is completed.

Measurement of assets

Separating the asset and service element of the unitary payment for newly acquired, constructed or developed assets

4.8 In some instances, the PPP agreement will not specifically distinguish between the service element and the asset element of the unitary payment. The service element of the unitary payment relates to services provided by the private party, such as repairs, maintenance and service delivery. The asset element relates to the development or construction of the asset. The entity therefore needs to analyse the amount of a unitary payment between the service and asset elements in order to account for the transaction.

<u>Separable payments</u>

4.9 If the PPP agreement specifies the service element and the asset element of the unitary payment, the principles in the applicable Standard of GRAP should be applied to the initial measurement of the asset. For example, GRAP 17.17 and 17.18 require that an item of property, plant and equipment should initially be recognised at cost. The cost of the asset is measured as the amount equal to the present value of the scheduled payments. Similar principles apply for initially measuring inventory, investment property, intangible assets or heritage assets in GRAP 12, GRAP 16, GRAP 31 and GRAP 103.

<u>Inseparable payments</u>

4.10 If the PPP agreement does not separate the service and asset elements of the unitary payment, the entity needs to determine the fair value of the asset acquired, constructed or developed at the inception of the PPP agreement to allocate the asset element of the unitary payment. The remainder of the unitary payment constitutes the service element of the unitary payment.

Example of inseparable payments

An entity enters into a 10 year PPP agreement with a private party in terms of which the private party is required to construct a building from which a service will be delivered. An annual unitary payment is made by the entity of R1.5-million, which includes a service element and an asset element. The fair value of the building at the commencement of the PPP agreement is estimated at R12-million. The remainder of the payment, being R3-million (R15-million – R12-million), constitutes the service element.

4.11 If the unitary payment consists of an asset payment for more than one asset, the fair value of each asset needs to be determined at the commencement of the PPP agreement.

Subsequent measurement of newly acquired, constructed or developed assets

4.12 The measurement principles in the applicable Standard of GRAP (e.g. GRAP 12, GRAP 16, GRAP 17, GRAP 31 and GRAP 103) should be applied subsequent to the initial recognition of the asset by the entity.

Entity's existing assets to be used in the PPP agreement

4.13 When the PPP agreement requires the private party to use an entity's existing assets and upgrade, and/or operate and maintain those assets for a specified period of time, the entity should continue to account for the assets when the control approach criteria are met. An entity should continue to recognise and measure these in accordance with its existing accounting policies selected in terms of the applicable Standards of GRAP (e.g. GRAP 12, GRAP 16, GRAP 17, GRAP 31 and 103).

4.14 Since there may be a change in the use of the entity's existing assets, the entity should consider whether the asset's expected future economic benefits or service potential has been impaired. Reference should be made to the Standards of GRAP on *Impairment of Non-Cash-generating Assets* and *Impairment of Cash-generating Assets* to determine whether any of the indicators of impairment have been triggered under such circumstances.

Private party's assets to be used in the PPP agreement

4.15 Where the private party is required to use its own assets, the entity should recognise those assets that were previously controlled by the private party if the control approach criteria are met. These assets should be measured in accordance with the principles explained in paragraphs 4.8 and 4.9. Subsequent to the recognition of these assets, the entity should apply the measurement principles in the applicable Standard of GRAP (for example, GRAP 12, GRAP 16, GRAP 17, GRAP 31 and GRAP 103).

Recognition of the obligation or exchange consideration

4.16 If control approach criteria are met, the private party does not recognise assets that fall within the scope of IFRIC 12. The contractual service agreement does not convey the right to control the use of the asset to the private party. Instead, the private party has access to operate the asset to provide a service on behalf of the entity in accordance with the terms specified in the PPP agreement. As a result, the private party is required to recognise its right to use the asset in the PPP agreement as either a financial asset or an intangible asset. This section considers the principles of recognition and measurement of the obligation from the entity's perspective once the control approach criteria are met.

Recognition and measurement of the obligation where the private party receives consideration from the entity

4.17 IFRIC 12 requires the private party to account for its right in the PPP agreement as a financial asset, to the extent that the operator has an unconditional present right to receive cash or another financial asset from, or at the direction of, the entity for the construction services; and the entity has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law.

4.18 The converse applies from a public sector perspective, and the entity has an unconditional obligation to deliver cash or another financial asset. Thus applying the control approach will result in the entity recognising an obligation for the asset under the PPP agreement. The obligation should be accounted for as a financial liability in terms of GRAP 104.

4.19 When the entity makes the scheduled payments to the private party under the PPP agreement, the entity should allocate the payments between the amount that reduces the financial liability associated with the asset, and the finance charges. For guidance on the use of an interest rate in calculating the finance charge portion, reference should be made to GRAP 104.

Recognition and measurement of the obligation where the private party received consideration from users

4.20 IFRIC 12 establishes that the private party receives a right to charge the users of the service and therefore needs to recognise an intangible asset within the scope of the International Accounting Standard® on *Intangible Assets*. The entity does not have any contractual obligation towards the private party. Instead, the entity controls the underlying property for granting the private party the right to charge user fees. In addition, the private party has access to the asset for the duration of the PPP agreement.

4.21 The underlying asset should be measured as set out in paragraphs 4.7 to 4.14. The right granted to the private party reflects an exchange consideration received in advance of performance. This is because the entity is receiving an inflow of resources in the form of assets, without having delivered on its portion of the exchange, the provision of access to such assets. As the entity is granting the private party access to the asset over the term of the PPP agreement, the exchange consideration should also be recognised over the life of the PPP agreement as access to the assets are provided.

Combination of compensation paid by the entity and funded by users

4.22 If the private party is paid for the construction of an asset partly by the entity, and partly from charging user fees, the entity should account separately for its obligations and its right to grant the private party access to the asset. This will result in the entity recognising and measuring assets in accordance with the principles described in paragraphs 4.7 to 4.14. The related obligation that is recognised under these PPP agreements will partly represent a financial liability (to the extent that the entity has a contractual obligation to the private party) and consideration received in advance (where the private party has the right to access the asset and charge users).

PPP agreements that involve land that is owned by another sphere of government

4.23 Some PPP agreements involve land that is owned by another sphere of government. The PPP agreement that involves the construction of a campus by DTI and the Tshwane Municipality is an example of such an agreement.

4.24 The entity that owns the land must account for the land in its financial statements. If any assets are constructed or developed on the land, the control approach criteria spelt out in this Guideline should be applied to determine who controls the underlying asset to be constructed or developed in terms of the PPP agreement. The approach should also be applied to determine if an obligation is recognised by either party.

4.25 If an agreement is drawn up between the entities then the principles in GRAP 13 should be applied to determine whether the agreement constitutes a lease agreement.

5. FINANCIAL REPORTING WHEN THE CONTROL APPROACH CRITERIA ARE NOT MET

5.1 The control approach adopted in this Guideline requires an entity to consider whether the PPP agreement constitutes a lease agreement by applying the principles in IFRIC 4 when one or both of the control approach criteria are met by the entity.

5.2 If the entity concludes that the PPP agreement constitutes a lease agreement by applying the principles in IFRIC 4, the next step is to consider whether the agreement should be classified as a finance lease or an operating lease.

5.3 If the agreement is classified as a finance lease, the entity should recognise an asset and a lease liability in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. If the agreement is classified as an operating lease, however, then the lease payments should be recognised as an expense in the statement of financial performance on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

5.4 If the entity concludes that the PPP agreement does not constitute a lease after applying the principles in IFRIC 4, then any payments made to the private party under the agreement should be expensed as incurred, unless it meets the definition of an asset in terms of the *Framework for the Preparation and Presentation of Financial Statements* [1] and the applicable Standards of GRAP.

5.5 Some PPP agreements determine that the entity controls the significant residual interest in the asset at the end of the agreement but does not control or regulate what services the private party must provide with the associated asset, to whom it must provide such services and at what price during the PPP agreement. Since the entity does not control the underlying asset at the commencement of the PPP agreement, it can not recognise that asset.

5.6 Where the entity has a right to a residual interest in an asset at the end of the PPP agreement, it should be recognised at the commencement of the agreement. As the consideration to be received at the end of the agreement reflects an exchange consideration, the right should be recognised and measured by applying the principles in the Standard of GRAP on *Revenue from Exchange Transactions* (GRAP 9), at the fair value of the consideration receivable. Any changes in the consideration to be received at the end of the agreement should be recognised as a change in estimate in accordance with the principles in the Standard of GRAP on *Accounting Polices, Changes in Accounting Estimates and Errors*. The value of the consideration receivable at the end of the PPP agreement should constitute the value at which the asset is to be recognised by the entity.

5.7 The entity must also recognise a corresponding obligation at the commencement of the PPP agreement. This obligation represents the entity's liability to grant the private party access to the asset for the duration of the PPP agreement. The obligation to grant the private party access to an asset is a not a financial liability as it is not delivered in cash or another financial asset. The entity should therefore recognise the obligation in accordance with the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets* (GRAP 19). The obligation is reduced over the period of the agreement as and when access is granted to the private party, by recognising revenue in the statement of financial performance.

6. ACCOUNTING FOR THE SERVICE ELEMENT IN THE PPP AGREEMENT

6.1 This section explains accounting for the service element of the unitary payment.

Recognition and measurement of the service element

6.2 The service element of the unitary payment relates to services provided by the private party, such as repairs, maintenance and service delivery. The expense is recognised as the service is rendered by the private party based on the provisions of the PPP agreement, irrespective of when payment is made. For more guidance on the recognition of expenses refer to the *Framework for the Preparation and Presentation of Financial Statements* [1].

Example: Recognition of service element

A PPP agreement requires a private party to manage a building for an entity for two years. At the inception of the agreement, the entity is liable for a single payment of R180 000 to the private party for providing the service. At the end of 20x1 services to the value of R85 000 have been provided to the entity. Annual inflation increases in the service element are not taken into account for illustration purposes.

Journal entries

Year 20X1	***Debit***	***Credit***
Service costs	85 000	
Prepaid service payment	95 000	
Liability/Bank account		180 000
(Payment of single service payment)		
Year 20X2		
Service costs	95 000	
Prepaid service payment		95 000
(Recognition of single service payment)		

7. ACCOUNTING FOR REVENUE RECEIVED FROM PPP AGREEMENTS

7.1 An entity receives revenue from the private party under these circumstances: a revenue-sharing provision and either upfront payments or a stream of payments from the private party.

7.2 Revenue-sharing by the entity is generally based on the principles that the revenue earned by the private party should not exceed an agreed threshold or that the revenue generated should provide a specified rate of return to the private party. Revenue collected by the private party in excess of such a threshold is paid over to the entity.

7.3 A PPP agreement may provide for the entity to share in a percentage of the revenue earned by the private party during the agreement. The agreement may also provide for the entity to receive upfront payments or a stream of payments over a period from the private party in consideration for entering into an agreement.

7.4 Where applicable, any revenue received by the entity should be paid over to the relevant revenue fund.

7.5 This section considers the accounting implications for the revenue received by the entity in PPP agreements.

Revenue sharing provisions

7.6 In PPP agreements where the private party is allowed to use an asset of the entity for its own commercial purposes during a specified period, the entity does not normally make any unitary payments to the private party. Instead, the private party arranges its own funding to meet the capital or other expenditure requirements of the project. In these types of agreements, the entity may share a percentage of the revenue generated by the private party under the agreement.

Recognition and measurement

7.7 To determine the appropriate method of recognising the revenue received by the entity under revenue sharing provisions, reference should be made to the principles in GRAP 9. GRAP 9 requires that revenue received should be measured at the fair value of the consideration received or receivable. Revenue is recognised when the amount of revenue can be measured reliably and when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

7.8 The amount of revenue is the amount of cash or cash equivalents received or receivable by the entity. This amount is usually determined by agreement between the entity and the private party. The entity should understand the terms and conditions of the PPP agreement to determine when it is probable that the economic benefits associated with the transaction will flow to the entity.

7.9 Revenue received from revenue sharing provisions that are based on reaching an agreed threshold should only be recognised when that threshold has been reached by the private party.

Payments to the entity

7.10 Payments to the entity can either be an upfront payment or a stream of payments payable to the entity over a period by the private party in consideration for the concession rights associated with the PPP agreement.

Recognition and measurement

7.11 The essential accounting issues related to the contractual fixed payments are the timing of the recognition and measurement of the revenue in the entity's financial statements. The principles in GRAP 9 should be applied to the recognition and measurement of any payments received by the entity.

7.12 Payments under PPP agreements are made, for example, to compensate the entity for the right to operate the associated asset. If these rights extend over the duration of the agreement, the entity should recognise revenue from the upfront payments or the stream of payments over the life of the agreement, starting at the commencement of the PPP term.

8. OTHER ACCOUNTING CONSIDERATIONS

Costs incurred prior to the finalisation of the PPP agreement

8.1 Entities contemplating a PPP agreement may incur certain costs irrespective of whether the agreement is ultimately entered into.

8.2 Such costs could involve environmental impact assessments, consensus surveys for the rezoning of land, consensus surveys for the land use and other costs incurred related to the project's feasibility. These are usually borne by the entity.

8.3 GRAP 31 requires that expenditure on research or on the research phase of an internal project should be recognised as an expense when it is incurred. This will include, for example, costs incurred at the feasibility stage of a project. Only when the criteria for development costs as set in GRAP 31 are met, can these be capitalised as part of the asset.

8.4 For guidance on the research and development costs, refer to GRAP 31, and for guidance on the recognition of initial and subsequent costs, refer to GRAP 17.

Step-in arrangements

8.5 The PPP agreement provides in some cases for the entity to take over the services provided by the private party to ensure continuity of an essential service delivered on behalf of the entity. Such an event could be triggered by external events or the failure of the private party.

8.6 This right is commonly referred to as a "step-in", as it involves the entity, or another party appointed by the entity, to take over some or all of the private party's functions to be performed under the PPP agreement. When a step-in occurs the entity must assess if it has incurred any liability in terms of GRAP 19.

8.7 Step-in arrangements usually involve penalty deductions from the unitary payments. Such penalty deductions normally relate to the service element of the unitary payment. The reduced unitary payment will only impact on the expense recognised in the statement of financial performance when the reduced payment is accounted for by the entity in its financial statements.

Provisions, contingent liabilities and contingent assets

Provisions and contingent liabilities

8.8 Entities can incur obligations under PPP agreements mainly in three situations, an obligation to compensate the private party in the form of unitary payments, an obligation arising from the termination of the PPP agreement and the issue of a guarantee, indemnity or security on behalf of the private party. The first is covered in section 4, while this section focuses on the other two situations.

Obligations arising from termination of the PPP agreement

8.9 The entity may incur a liability in situations where the entity or the private party fails to meet its obligations under the PPP agreement. This normally results in the early termination of the agreement. Under such circumstances, the entity can incur a liability to compensate the private party as a result of the agreement's termination. A liability should be recognised by the entity to the extent that the principles in GRAP 19 are met.

Issue of a guarantee, indemnity or security on behalf of the private party

8.10 Under PPP agreements, the entity can issue various guarantees such as financial guarantees or performance guarantees.

8.11 As discussed in section 1, PPP agreements can involve the private party raising finance in various ways, including capital contributions and third party finance.

8.12 In instances where the private party raises debt through third party finance, section 66(1) of the PFMA prohibits the entity from issuing a guarantee, indemnity or security that binds, or may bind the entity or the revenue funds, unless the conditions in section 66(2) of the PFMA have been complied with.

8.13 Similar to the PFMA, section 50 of the MFMA determines that a municipality may not issue any guarantee for any commitment or debt to any organ of state or person, except when the municipality has complied with all the relevant legislative requirements.

8.14 If the legislative requirements of the PFMA and MFMA are met and the entity issues a guarantee, indemnity or security on behalf of the private party, it remains necessary to raise liabilities and disclose contingent liabilities as appropriate.

8.15 Entities should apply GRAP 104 to the initial recognition and to the initial and subsequent measurement of it's liability in the instances where a financial guarantee is issued. A financial guarantee is a contract that requires the issuer (the entity) to make specified payments to reimburse the holder (e.g. the financial institution) for a loss it incurs because a specified debtor (the private party) fails to make payment when due in accordance with the original or modified terms of a debt instrument.

8.16 For all other guarantees issued by the entity, such as performance guarantees, the entity should apply GRAP 19 for the initial recognition and the initial and subsequent measurement of such guarantees.

8.17 In PPP agreements with large investment costs and uncertain revenue collections, the entity may guarantee the minimum revenue to be received by the private party. Accounting for such an obligation by the entity is discussed later on in this section.

Other liabilities

8.18 The entity can also incur a liability resulting from an obligation to restore environmental damage to land. To the extent that the entity has a present obligation as required by GRAP 19, it should recognise the liability.

Recognition of provisions and liabilities

8.19 GRAP 19 requires that an entity should recognise a provision in the annual financial statements when:

(a) the entity has a present obligation (legal or constructive) as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and

(c) a reasonably reliable estimate can be made of the amount of the obligation.

8.20 Provisions can be distinguished from other liabilities, such as payables and accruals, due to the uncertainty of the timing or amount of the future expenditure required in settlement. By contrast there is more certainty in the amount of:

(a) payables, which are liabilities to pay for goods or services that have been received or supplied, and have been invoiced or formally agreed with the supplier; and

(b) accruals, which are liabilities to pay for goods or services that have been received or supplied but have not been invoiced or formally agreed with the supplier.

8.21 A contingent liability, on the other hand, should only be disclosed in a note to the financial statements. A contingent liability is a:

- possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity (e.g. default by the private party to repay a loan); or
- a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets

8.22 Contingent assets can also arise under PPP agreements, e.g. a claim against a private party in respect of continued legal proceedings. Unless the court rules in favour of the private party, the entity should disclose the claim as a contingent asset.

8.23 As with contingent liabilities, contingent assets are not recognised in the annual financial statements of the entity, but the financial statements should only provide details of the contingency. For more guidance on the disclosure of contingent asset, refer to GRAP 19.

Reassessment of contingent liabilities and contingent assets

8.24 Contingent liabilities and contingent assets are required to be assessed at each reporting date. When it is probable that an inflow or outflow of economic benefits or service potential will occur and the value can be measured reliably, the asset or liability and the related revenue or expense should be recognised in the financial statements.

8.25 For more guidance on the recognition, measurement and disclosure requirements for provisions, contingent liabilities and contingent assets, reference should be made to GRAP 19.

Thresholds for collection of user fees by the private party

8.26 As mentioned in previous sections, unitary payments can be reduced by user charges collected by the private party. These may be subject to thresholds and guarantees.

8.27 Section 6 deals with the situation where an agreed threshold for user charges results in payments to the entity.

8.28 If the private party collects less than the threshold of user fees, the entity recognises a provision for the shortfall as required by GRAP 19.

Example of thresholds agreed between the entity and the private party

An entity enters into a PPP agreement with a private party for the construction of a toll road to be managed for the next five years. Under the PPP agreement, the private party may collect user charges up to an amount of R1-million pa. Thereafter further collections are paid over to the entity. The entity and the private party further agree that the minimum fees to be received by the private party will be R600 000 per annum. The private party completed the toll road in one year. The fair value of the toll road at the commencement of the PPP agreement is R850 000. The toll road has a five year economic life and is depreciated on a straight-line basis over its economic life.

The following user charges were collected by the private party during the duration of the PPP agreement:

20X1 = R0 (as toll road was being constructed) *20X2 = R500 000*

20X3 = R600 000 *20X4 = R950 000* *20X5 = R1 350 000*

Journal entries

Commencement of PPP agreement (X1)

The entity made an upfront contribution to the private party of R100 000 that should be included in the cost of the constructed asset

The entity recognises the toll road at fair value after construction, based on the control criteria. As the asset is not used in the first year, no depreciation expense is recognised.

Year 20X1	***Debit***	***Credit***
Asset	850 000	
Exchange revenue (advance receipt)		850 000
(The toll road is recognised at fair value and represents a net asset inflow for the entity)		

The exchange consideration should be recognised to the statement of financial performance over the life of the PPP agreement as access is granted to the private party.

Year 20X2

The private party collects R500 000 in service charges. As the minimum agreed fees to be collected by the private party was R600 000. The entity therefore needs to compensate the private party for the shortfall of R100 000.

Year 20X2	***Debit***	***Credit***
Service costs	100 000	
Liability/Bank account		100 000
(Payment of shortfall in terms of guarantee)		
Depreciation	170 000	
Accumulated depreciation		170 000
(850 000/5yrs)		

Year 20X3

The private party collects R600 000 in service charges. As the minimum agreed fee threshold was obtained by the private party, the entity has no obligation towards the private party.

Year 20X3	***Debit***	***Credit***
Depreciation	170 000	
Accumulated depreciation		170 000
(850 000/5yrs)		

Year 20X4

The private party collects R950 000 in service charges. The minimum agreed fees to be collected by the private party was R600 000. As there is no shortfall, the entity has no obligation towards the private party. The private party can collect user charges up to R1-million before user charges are payable to the entity.

Year 20X4	***Debit***	***Credit***
Depreciation	170 000	
Accumulated depreciation		170 000
(850 000/5yrs)		

Year 20X5

The private party collects R1 350 000 in service charges. The minimum agreed fees to be collected by the private party was R600 000, and the maximum agreed amount of fees to be collected by the private party was R1-million. The private party therefore owes the entity R350 000 for user charges collected above the agreed threshold.

Year 20X5	***Debit***	***Credit***
Receivable/Bank account	350 000	
Revenue		350 000
(Receipt of user charges more than maximum allowed under the PPP agreement)		
Depreciation	170 000	
Accumulated depreciation		170 000
(850 000/5yrs)		

9. ACCOUNTING FOR THE ENTITY'S INTEREST IN A SPV

9.1 When entering into a PPP agreement, the private party assumes substantial financial, technical and operational risk in the design, financing, building and operation of a project. As discussed in section 1, the private party may obtain finance in various ways, and may establish a SPV through which to channel the finance.

9.2 Usually the entity has neither an investment in a SPV, nor does it influence the functions or operations of the SPV. There is, however, nothing to prohibit an entity obtaining an interest in a SPV.

9.3 To assist the SPV in performing its functions under the PPP agreement some SPVs involve the appointment of, amongst others, a construction subcontractor and an operations and maintenance subcontractor. The entity should consider its interest in a SPV, irrespective of how the accounting of the subcontractors is arranged. This section explains the manner is which an entity should account for any interest in a SPV.

Controlling a share in a SPV

9.4 GRAP 6 requires an entity to prepare and present consolidated financial statements for entities under its control. Control is defined as the power to govern the financial and operating policies of another entity, so as to benefit from its activities.

9.5 GRAP 6.26 to 6.35 explains the concept of control for the purpose of financial reporting. GRAP 6.35 states that control is presumed to exist when at least one of the following power conditions and one of the following benefit conditions exists:

Power conditions

(a) The entity has, directly or indirectly through controlled entities, ownership of a majority voting interest in the other entity.

(b) The entity has the power, either granted by or exercised within existing legislation, to appoint or remove a majority of the members of the board of directors or equivalent governing body, and control of the entity is by that board or body.

(c) The entity has the power to cast, or regulate the casting of, a majority of the votes that are likely to be cast at a general meeting of the other entity.

(d) The entity has the power to cast the majority of votes at meetings of the board of directors or equivalent governing body, and control of the entity is by that board or body.

Benefit conditions

(a) The entity has the power to dissolve the other entity and obtain a significant level of the residual economic benefits or bear significant obligations. For example, the benefit condition may be met if an entity has the responsibility for the residual liabilities of another entity.

(b) The entity has the power to extract distributions of assets from the other entity, and/or may be liable for certain obligations of the other entity.

9.6 GRAP 6.36 further states that when one or more of the circumstances listed in GRAP 6.35 does not exist, the following factors are likely, either individually or collectively, to be indicative of the existence of control:

Power indicators

(a) The entity has the ability to veto operating and capital budgets of the other entity.

(b) The entity has the ability to veto, overrule or modify governing body decisions of the other entity.

(c) The entity has the ability to approve the hiring, reassignment and removal of key personnel of the other entity.

(d) The mandate of the other entity is established and limited by legislation.

(e) The entity holds a "golden share"[2] (or equivalent) in the other entity, which confers rights to govern the financial and operating policies of the other entity.

(f) The entity has the ability to establish or amend the mission or mandate of the other entity.

(g) The entity has the ability to establish borrowing or investment limits or restrict the other entity's investments.

(h) The entity has the ability to restrict the revenue-generating capacity of the other entity, notably the sources of revenue.

Benefit indicators

(a) The entity holds direct or indirect title to the net assets of the other entity with an ongoing right to access these.

(b) The entity has a right to a significant level of the net assets of the other entity in the event of a liquidation or in a distribution other than a liquidation.

(c) The entity is able to direct the other entity to co-operate with it in achieving its objectives.

(d) The entity is exposed to the residual liabilities of the other entity.

[2] "Golden share" refers to a class of share that entitles the holder to specified powers or rights generally exceeding those normally associated with the holder's ownership interest or representation on the governing body.

(e) The entity has ongoing access to the assets of the other entity, has the ability to direct the ongoing use of those assets or has ongoing responsibility for deficits.

Special purpose entity

9.7 GRAP 6 also addresses the establishment of a special purpose entity for purposes of consolidation. GRAP 6.35 explains that an entity may be created to accomplish a narrow and well-defined objective. Such a special purpose entity may take the form of a corporation, trust, partnership or unincorporated entity. Special purpose entities are often created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their governing board, trustee or management over the operations of the special purpose entity. Frequently, these provisions specify that the policy guiding the ongoing activities of the special purpose entity cannot be modified, other than perhaps by its creator or sponsor.

9.8 In the context of a special purpose entity, control may arise through the predetermination of the activities of the special purpose entity or otherwise. GRAP 6.36 sets out the circumstances that result in control, even in cases where an entity owns one half or less of the voting power of another entity. Similarly, control may exist even in cases where an entity owns little or none of the special purpose entity's net assets. The application of the control concept requires judgement in the context of all relevant factors of each case.

9.9 Therefore, in addition to the situations described in GRAP 6.36, the following circumstances may indicate, in substance, a relationship in which an entity controls a special purpose entity and consequently should consolidate the special purpose entity:

(a) the activities of the special purpose entity are conducted on behalf of the entity according to its specific operational needs, so that it obtains benefits from the special purpose entity's operation.

(b) the entity has the decision-making powers to obtain the majority of the benefits of the activities of the special purpose entity or, by setting up an "autopilot" mechanism, the entity has delegated these decision-making powers.

(c) the entity has the right to obtain the majority of the benefits of the special purpose entity and may, therefore, be exposed to risks incidental to the activities of the special purpose entity.

(d) the entity retains the majority of the residual or ownership risks related to the special purpose entity or its assets in order to obtain benefits from its activities.

9.10 If it is evident from the entity's investment in the SPV it has control over the SPV, it should prepare consolidated financial statements as required by GRAP 6.

9.11 For more guidance on the consolidation procedures to be applied in preparing consolidated financial statements, refer to GRAP 6.

Significant influence in a SPV

9.12 If the entity's interest in the SPV does not meet the control criteria in GRAP 6, it should be considered whether the entity has a significant influence over the SPV. GRAP 7 defines significant influence as the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies.

9.13 GRAP 7.10 to 7.15 provides detailed guidance as to when significant influence exists. Paragraph .10 explains that, if an investor holds, directly or indirectly, 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not so. Conversely, if the investor holds, directly or indirectly, less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can clearly be demonstrated.

9.14 GRAP 7.12 provides the following examples and indicators as evidence that significant influence exists:

(a) Representation on the board of directors or equivalent governing body of the investee.

(b) Participation in policy-making processes, including participation in decisions about dividends or similar distributions.

(c) Material transactions between the investor and the investee.

(d) Interchange of managerial personnel.

(e) Provision of essential technical information.

9.15 Consequently, the equity method should be used to account for the investment in the SPV since it has a significant influence over the SPV as a result of its investment in the SPV.

9.16 For more guidance on the application of the equity method, reference should be made to GRAP 7.

Investment in a SPV

9.17 If the entity's investment in a SPV provides neither control nor significant influence, reference should be made to GRAP 104.

10. DISCLOSURE REQUIREMENTS

SIC Interpretation 29

10.1 SIC® Interpretation 29 on *Service Concession Arrangements: Disclosures* prescribes information that has to be disclosed by a concession operator (private party) and the concession provider (entity) in the notes to the financial statements when they have entered into a PPP agreement.

10.2 For each PPP agreement that the entity has entered into, the following must be disclosed in a note to the annual financial statements:

(a) A description of the agreement.

(b) Significant terms of the arrangement that may affect the amount, timing and certainty of future cash flows.

(c) The nature and extent of:

- rights to use specified assets;
- obligations to provide or rights to expect provision of services;
- obligations to acquire or build assets;
- obligations to deliver or rights to receive specified assets at the end of the PPP agreement;
- renewal and termination options; and
- other rights and obligations (e.g. major overhauls).

(d) Changes in the agreement occurring during the period.

10.3 These disclosure requirements should be provided individually for each material PPP agreement or, in aggregate, for PPP agreements of a similar nature.

Finance charges

10.4 The Standard of GRAP on *Presentation of Financial Statements* (GRAP 1) requires that finance charges should be presented on the face of the statement of financial performance at a minimum (see GRAP 1.96(b)). Refer also to GRAP 104 for disclosures relating to finance charges.

Asset related Standards

10.5 For guidance on the disclosure requirements of items of property, plant and equipment, inventory, investment property, intangible assets or heritage assets that are developed or constructed as a result of a PPP agreement, refer to GRAP 12, GRAP 16, GRAP 17, GRAP 31 or GRAP 103.

Provisions, contingent liabilities and contingent assets

10.6 For guidance on the disclosure requirements of provisions, contingent liabilities and contingent assets, refer to GRAP 19.

Revenue

10.7 For guidance on the disclosure requirements of revenue, refer to GRAP 9.

Leases

10.8 For guidance on the disclosure requirements of leases, refer to GRAP 13.

Interests in a SPV

10.9 For guidance on the disclosure requirements of the entity's interest in a SPV, either through control, significant influence or as an investment, refer to GRAP 6, GRAP 7 and GRAP 104.

Financial instruments

10.10 For guidance on the disclosure requirements relating to financial liabilities and financial guarantees, refer to GRAP 104.

APPENDIX A – Explanation of the control approach and the risks and rewards approach

This appendix is an integral part of this Guideline.

A1. The Guideline has adopted a control approach in determining whether the entity should account for the asset and the related obligation in a PPP agreement. This approach is in line with the definition of an asset in the *Framework for the Preparation and Presentation of Financial Statements* [1].

A2. The adoption of the control approach flows from the fact that - even though the entity controls the use of the underlying asset to meet the definition of an asset in the *Framework for the Preparation and Presentation of Financial Statements* [1] - the asset should produce an expected flow of future economic benefits or service potential. The expected flow of future economic benefits or service potential can be evidenced by the receipt of rewards related to the asset and the assumption of risks associated with it. Allocation of risks and rewards is the basis for the guidance on reporting leases in GRAP 13.

A3. Generally, entities enter into PPP agreements to meet service delivery objectives through the development, construction, renovation, or improved operation of the underlying asset or services. The underlying asset is therefore intended to provide the entity with rewards in the form of service potential even if the asset will not provide any future economic benefit. Moreover, even if the entity's motivation for entering into the PPP agreement is based on an economic benefit, the underlying asset would still need to meet the entity's service delivery objective. It is, however, operated by a private party and therefore, would be providing service potential rewards to the entity.

A4. The service potential that the entity obtains through the use of the asset is accompanied by risks associated with that asset. The entity remains accountable for the delivery of the service provided using the asset. The entity remains accountable for the operation of the asset, even though its operation is being undertaken by a private party. Some service delivery risk may fall to the private party. The entity's accountability for the services provided by the underlying asset can be evidenced by its control over the use of the asset.

A5. If the entity retains control over the assets using the control approach as determined by IFRIC 12, the entity is accountable for that asset and the services provided through its use. This accountability would subject the entity to the risks associated with the assets related to service delivery, and allow the entity to obtain rewards related to achievement of its service objectives. This indicates that future service potential benefits from the asset will flow to the entity. It can be concluded that if the entity controls the use of the asset, it also can be expected to benefit from its future service potential. Thus the assets underlying a PPP agreement meet the definition of an asset in the *Framework for the Preparation and Presentation of Financial Statements* [1] if the entity controls the use of the asset.

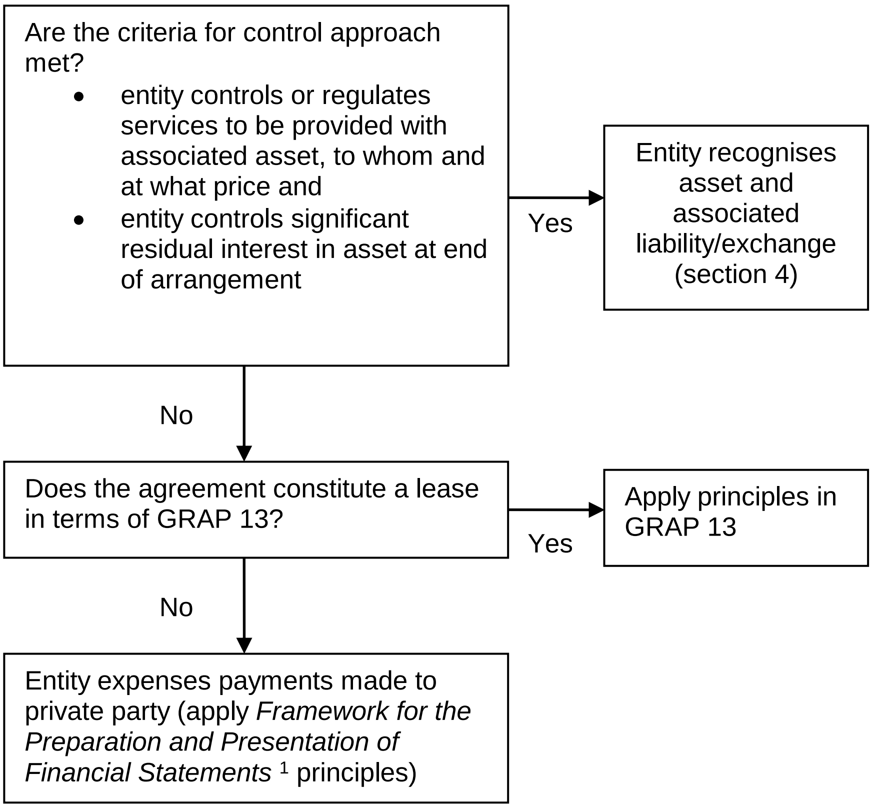
A6. On the other hand, the guidance in GRAP 13 also starts with a determination of whether control over the use of the asset has been conveyed. Having established that control has been conveyed, the reporting of the asset depends on whether substantially all of the risks and rewards related to ownership have been transferred to the lessee. If such transfer occurs, the lessee recognises the asset. If not, the lessor continues to account for the asset. Guidance is provided in GRAP 13 to assist an entity in determining whether the risks and rewards incidental to ownership has passed to the lessee.

A7. The control approach criteria in IFRIC 12 incorporate a similar concept in the residual interest criterion. In addition to securing the continuous use of the asset by the entity during the agreement, the residual interest criterion also ensures that the entity will continue to control its use at the end of the PPP agreement. In this way the control approach proposed can be viewed as incorporating the concept of risks and rewards, with a focus on service potential risks and rewards.

Appendix B – Diagram illustrating the approach to be adopted in determining the accounting for PPP agreements

This appendix is illustrative only and does not form part of this Guideline. The purpose of this appendix is to illustrate the application of this Guideline and to assist in clarifying its meaning.

The diagram below summarises the steps to be considered in determining the approach that must be adopted in accounting for PPP agreements.



Appendix C – Glossary of terms

This appendix defines the terms used in the Guideline as defined in the Standards of GRAP.

Terminology	Definition
Accrual basis	A basis of accounting under which transactions and other events are recognised when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognised in the financial statements of the periods to which they relate. The elements recognised under accrual accounting are assets, liabilities, net assets, revenue and expenses.
Assets	Resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.
Carrying amount	The amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.
Cash	Cash comprises cash on hand and demand deposits.
Cash equivalents	Short-term, highly liquid investments that is readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
Commencement of the lease term	The date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e. the recognition of the assets, liabilities, revenue and expenses resulting from the lease, as appropriate).
Constructive obligation	An obligation that derives from an entity's actions where: (a) by an established pattern of past practice, published policies or a sufficiently specific current Standard, the entity has indicated to other parties that it will accept certain responsibilities; and (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.
Contingent asset	A possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Terminology	**Definition**
Contingent liability	A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or a present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability.
Control	The power to govern the financial and operating policies of another entity so as to benefit from its activities.
Control of an asset	Arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.
Cost	The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.
Depreciation	The systematic allocation of the depreciable amount of an asset over its useful life.
Economic life	Economic life is either: (a) the period over which an asset is expected to yield economic benefits or service potential to one or more users; or (b) the number of production or similar units expected to be obtained from the asset by one or more users.
Expenses	Decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets, other than those relating to distributions to owners.
Financial guarantee contract	A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Terminology	Definition
Finance lease	A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.
Financial liability	Any liability that is: (a) a contractual obligation: (i) to deliver cash or another financial asset to another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or (b) a contract that will or may be settled in the entity's own equity instruments and is: (i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.
Fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Government business enterprise	An entity that, in accordance with the PFMA: (a) is a juristic person under the ownership control of the national/provincial executive; (b) has been assigned the financial and operational authority to carry on a business activity; (c) as its principal business, provides goods or services in accordance with ordinary business principles; and (d) is financed fully or substantially from sources other than: (i) the National or Provincial Revenue Fund; or (ii) by way of a tax, levy or other statutory money.

Terminology	Definition
Intangible asset	An identifiable non-monetary asset without physical substance.
Lease	An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.
Legal obligation	An obligation that derives from: (a) a contract (through its explicit or implicit terms); (b) legislation; or (c) other operation of law.
Liabilities	Present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.
Management	Those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions
Net assets	The residual interest in the assets of the entity after deducting all its liabilities.
Operating lease	A lease other than a finance lease.
Property, plant and equipment	Tangible items that: (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than one reporting period.
Provision	A liability of uncertain timing or amount.
Reporting date	The date of the last day of the reporting period to which the financial statements relate.
Revenue	The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.
Unitary payment	The charge payable by the entity to the private party in

Terminology	Definition
	connection with the performance of the private party's obligations included in project deliverables.

References

Preface to Standards of Generally Recognised Accounting Practice

Framework for the Preparation and Presentation of Financial Statements[1]

Standard of Generally Recognised Accounting Practice on *Presentation of Financial Statements* (GRAP 1)

Standard of Generally Recognised Accounting Practice on *Accounting Polices, Changes in Accounting Estimates and Errors* (GRAP 3)

Standard of Generally Recognised Accounting Practice on *Consolidated and Separate Financial Statements* (GRAP 6)

Standard of Generally Recognised Accounting Practice on *Investments in Associates* (GRAP 7)

Standard of Generally Recognised Accounting Practice on *Revenue from Exchange Transactions* (GRAP 9)

Standard of Generally Recognised Accounting Practice on *Inventories* (GRAP 12)

Standard of Generally Recognised Accounting Practice on *Leases* (GRAP 13)

Standard of Generally Recognised Accounting Practice on *Investment Properties* (GRAP 16)

Standard of Generally Recognised Accounting Practice on *Property, Plant and Equipment* (GRAP 17)

Standard of Generally Recognised Accounting Practice on *Provisions, Contingent Liabilities and Contingent Assets* (GRAP 19)

Standard of Generally Recognised Accounting Practice on *Impairment of Non-cash-generating Assets* (GRAP 21)

Standard of Generally Recognised Accounting Practice on *Revenue from Non-exchange Transactions (Taxes and Transfers)* (GRAP 23)

Standard of Generally Recognised Accounting Practice on *Impairment of Cash-generating Assets* (GRAP 26)

Standard of Generally Recognised Accounting Practice on *Intangible Assets* (GRAP 31)

Standard of Generally Recognised Accounting Practice on *Financial Instruments* (GRAP 104)

SIC Interpretation 29 on *Service Concession Arrangements: Disclosures* (SIC® 29)

IFRIC Interpretation 4 on *Determining Whether an Arrangement Contains a Lease* (December 2004) (IFRIC® 4)

IFRIC Interpretation 12 on *Service Concession Arrangements* (SIC® 12)

Treasury Regulation 16, issued in terms of the PFMA (March 2005)

Treasury Regulations issued in terms of the MFMA (issued 1 April 2005)

National Treasury Public Private Partnership Manual

Manual on Standardised Public Private Partnership Provisions (www.ppp.gov.za)

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United Kingdom: Financial Reporting Standard (FRS5), specifically Application Note 5 "Private Finance Initiative and Similar Contracts"

United Kingdom: Technical Note 1 - How to account for PFI transactions

Report for the National Treasury of South Africa on *Managing the government's fiscal obligations in public-private partnerships* – 14 September 2006

Report for the National Treasury of South Africa on KPMG Public-private partnership Assignment – November 2006

IPSASB Research Paper on *Service Concession Arrangements* – July 2007

For more information on the basic documents required by South African public sector service managers that are involved in the design, procurement and implementation of public-private partnerships, reference should be made to the Treasury Manual on PPP projects.