TO: All Departments[1]

F 7/1/00

2 April 2007

<u>Circular 4/2007: Accounting for Public Private Partnership (PPP) Projects in the 2007 and subsequent years' Appropriation Accounts</u>

A Dhuine Uasail

1. I am directed by the Minister for Finance to issue instructions on how Departments and Offices should in future account for Public Private Partnership [PPP] projects in their annual Appropriation Accounts. The new arrangements will apply from the 2007 Appropriation Accounts onwards. You should make a note for each PPP project, in accordance with paragraph 6 below.

2. A PPP is an arrangement between the public and private sectors (consistent with a broad range of possible partnership structures) with clear agreement on shared objectives for the delivery of public infrastructure and/or public services by the private sector that would otherwise have been provided through traditional public sector procurement. PPP projects focus on a whole-life, integrated approach to the procurement of large scale public assets and/or services.

   A particular arrangement or project may constitute a PPP where the following key characteristics are present:

   - shared responsibility for the provision of the infrastructure or services with a significant level of risk being taken by the private sector, for example, in infrastructure projects, linking design and construction with one or all of the finance, operate and maintain elements;

   - long-term commitment by the public sector to the provision of quality public services to consumers through contractual arrangements with private sector operators; and

   - better value for money and optimal allocation of risk, for example, by exploiting private sector competencies (managerial, technical, financial and innovation) over the project's lifetime and by promoting the cross-transfer of skills between the public and private partners."

3. PPPs in Ireland take a number of forms including Design Build Operate (DBO); Design Build Operate and Finance (DBOF); Concession, Design Build and Finance (DBF), and Operate only.

   Typically, under the contractual arrangements for PPP projects, the State remunerates the private sector partner – subject to satisfactory performance – for

[1] Throughout this Circular *Department(s)* should be read as *Department(s)/Office(s)*

some or all of the costs incurred in the design, build, operation, maintenance and/or financing of the asset, as appropriate. This remuneration generally takes the form of regular unitary payments to the private sector partner over the term of the contract and is usually made from a designated PPP subhead in Departmental Votes. In some instances the State may also pay a capital grant to the private sector partner over the construction period: such a payment would be made from the relevant capital subhead in Departmental Votes. In a Concession project the private sector is remunerated, in whole or in part, by user charges, such as tolls.

4. Estimates for Departments with PPP projects will in future include a subhead devoted to the annual unitary payments made in respect of PPP projects.

5. Department of Finance Circulars 18/92, 1/95, 1/96 and letter of 23 February 1995 to Accounting Officers deal with, inter alia, notes to Appropriation Accounts in relation to commitments arising from capital projects procured through traditional public procurement methods.

6. The notes to the Appropriation Accounts for 2007 and thereafter, should include a note entitled 'Capital Cost of Public Private Partnership Projects'. The purpose of this note is to detail the capital cost of PPP projects in respect of which capital expenditure has been incurred. As in previous years, the full cost of each PPP project (i.e. capital costs, interest costs and operation and maintenance costs) for the current year must still be shown in the appropriation accounts as a separate line item under the subhead for unitary payments. Breakdowns of these unitary payments are shown in the Abridged and Revised Estimates Volumes

This note is to form part of the overall note on Commitments and should be set out immediately after the note 'Multi-Annual Capital Commitments' in the format below.

C. Capital Cost of Public Private Partnership Projects

Projects involving total capital expenditure of €6,348,690 or more

Name of PPP Project	**Expenditure to 31 December 2006** [1] **Column 1**	**Expenditure in 2007** [2] **Column 2**	**Balance still outstanding on Capital Cost of Project at delivery** [3] **Column 3**	**Totals** [4] **Column 4**
	€,000	€,000	€,000	€,000
Project A				
Project B				

1. Represents expenditure up to end of previous year on repayment of capital cost of asset at the point of delivery, excluding the cost of PPP financing.
2. Represents expenditure in the current year on repayment of capital cost of the asset at point of delivery, excluding the cost of PPP financing.
3. Amount still outstanding on repayment of capital cost of the asset at point of delivery, excluding cost of future debt servicing in PPP arrangement, (i.e. the difference between Column 4 and the sum of Columns 1 and 2.)
4. Capital cost of asset at point of delivery, excluding finance charges over the life of the PPP project.

7. The total capital cost (i.e. excluding Operation and Maintenance costs) of the project, to be shown in Column 4 in the table, should represent all the costs (**including VAT**) associated with the construction of the physical asset to the point of becoming available for use[2] and included in the winning bidder's financial model:

i. Actual capital construction costs (including "fit out" services and equipment costs)
ii. Administration arrangement overheads for consortium that would be factored into commercial pricing of the built asset (e.g. bank fees, SPC operating costs insurance, etc.)
iii. Short term funding costs (excluding finance charges) to point of delivery of the built asset (i.e. arrangement and commitment fees, capitalised interest, etc.)

For existing projects, Departments must agree the figures to be provided in the table described in Paragraph 6 above with their financial advisors.
In future, the figures to be provided in the table described in Paragraph 6 above should be based on the agreed financial model for the PPP project. That model should incorporate a schedule of the capital payments to be made over the life of the project. The schedule should facilitate Departments in providing the information required by paragraph 6 above.

8. Treatment of VAT on construction.

It is usual for PPP projects that VAT is paid when individual payments are made. For such PPP projects the annual charge for VAT on construction should be included with the current year expenditure in Column 2 and accumulated in Column 1. The balance still outstanding on the capital cost of the project at delivery given for each project in Column 3 should also include VAT on construction as per paragraph 7 above.

In a number of PPP projects, the VAT liability on construction of the asset may be dealt with separately to the arrangements in the financial model. In such circumstances, the VAT liability on construction agreed with the Office of the Revenue Commissioners and paid as a lump sum should be treated as a once off payment in the first year of the project and reflected in the table described in paragraph 6 above by being included in the amount in Column 2 (if the project

[2] This is the definition of the full capital cost used in the Guidance Note on the Accounting Treatment of Capital Projects for General Government Purposes (and charged against the Capital Envelope over the construction period).

commenced in the year of the Appropriation Account) or in Column 1 (if the project commenced before the year of the Appropriation Account). Where the VAT on construction is paid in this manner, the fact should be noted in a footnote to the table.

9. Queries about this Circular should be directed by e-mail to govacc@finance.gov.ie or by phone to Government Accounting Section at (639 6262/3), Department of Finance.

Mise, le meas

Kevin Cardiff
Second Secretary General