



Service Concession Arrangements

IPSAS 32

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Presented by

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At the end of this session, each learner be able to;

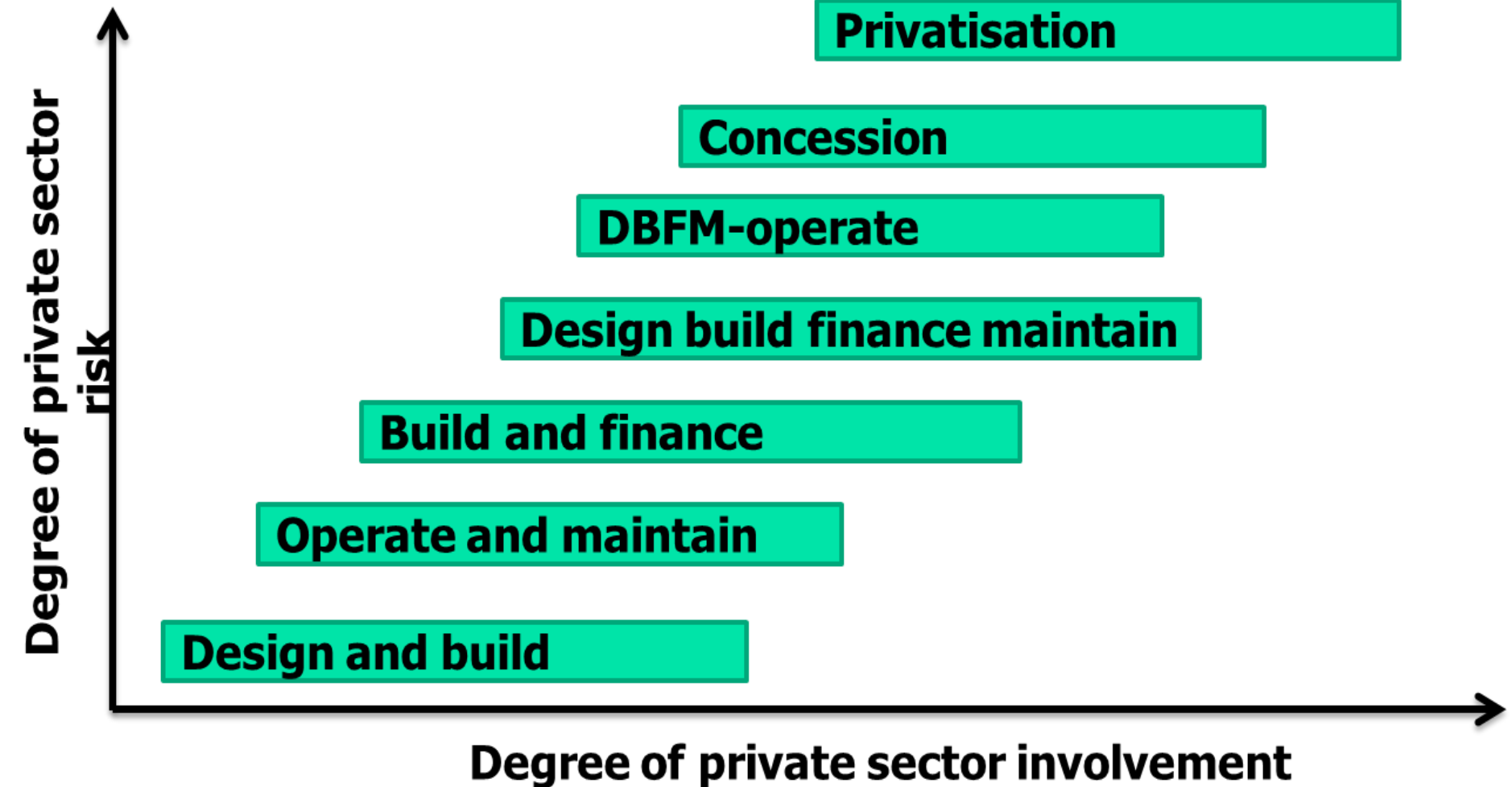
- Understand the scope of service concession arrangements
- Recognize and measure service concession assets
- Recognize and measure service concession liabilities
- Key disclosure requirements
- Practical applications in Kenya
- PPP Act 2013



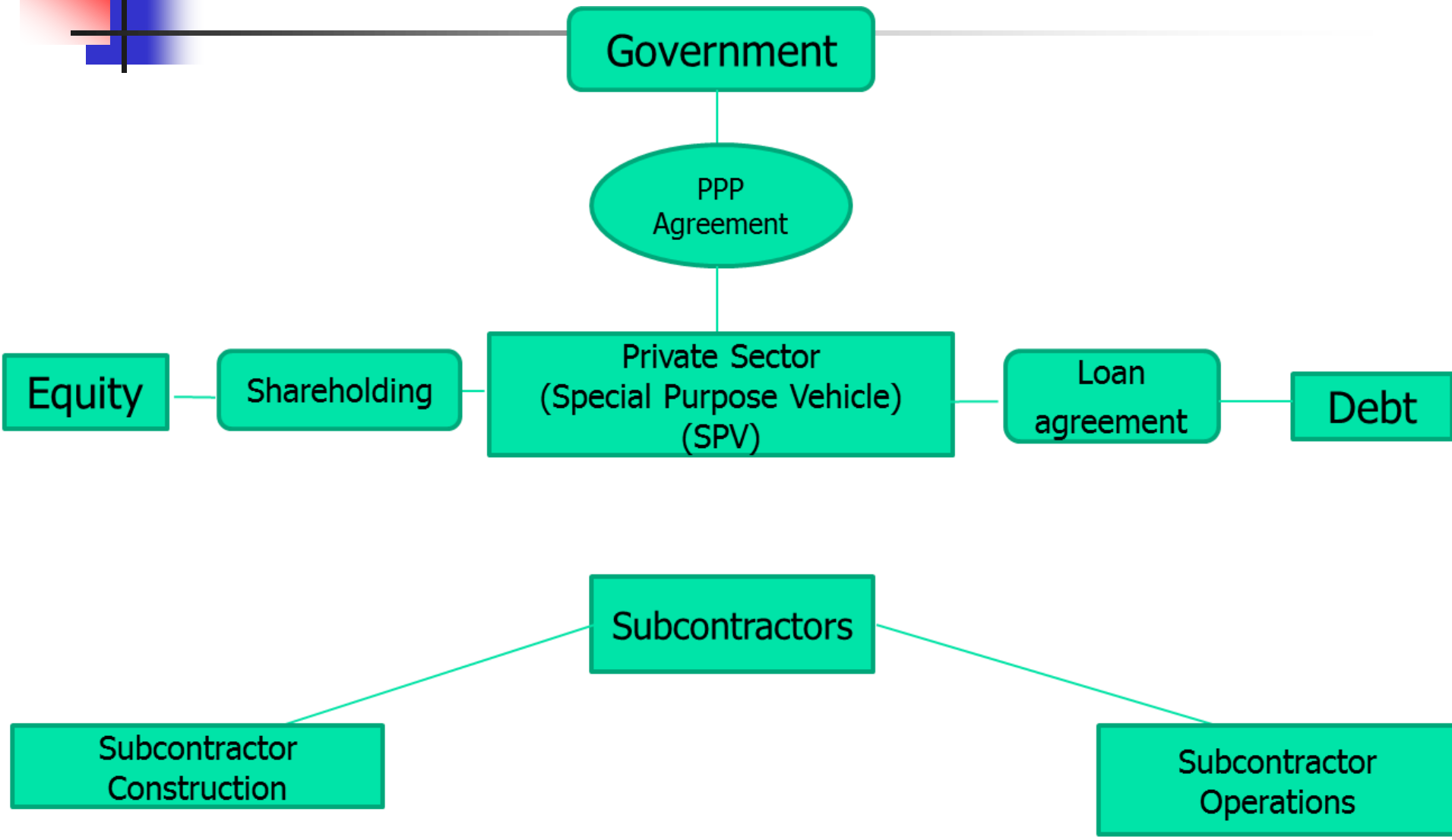
Concession arrangements

- A service concession arrangement is a binding arrangement between a grantor and an operator in which:
- The operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time; and
- The operator is compensated for its services over the period of the service concession arrangement.


Possible model; Risks vs involvement



Finance structure



According to PPP Act 2013



"Concession" means a contractual license formalized by a project agreement, which may be linked to a separate interest or right over real property, entitling a person who is granted the license(operator) to make use of the specified infrastructure or undertake a project and to charge user fees, receive availability payments or both such fees and payments during the term of the concession;(PPP Act,2013)



PPP Guiding principle

- **“Value for money”** means that the undertaking of a public function of the contracting authority by a private party under a public private partnership results in a net benefit accruing to that contracting authority defined in terms of cost, price, quality, quantity, timeliness or risk transfer.



Concession asset

- A service concession asset is an asset used to provide public services in a service concession arrangement that:
- Is provided by the operator which either the operator constructs, develops, or acquires from a third party; or Is an existing asset of the operator; or
- Is provided by the grantor which either is an existing asset of the grantor; or is an upgrade to an existing asset of the grantor.



Recognition

- Grantor recognizes concession assets if;

- a) He regulates / controls what services the operator must provide with the asset, to whom it must provide them, and at what price
- b) He controls any significant residual interest in the asset at the end of the term of the arrangement.

For a 'whole-of-life' asset, only the conditions under (a) need to be met.



Measurement and classification

- The grantor initially measure the service concession asset recognized at its fair value, or
- reclassify the existing asset as a service concession asset.
- accounted for in accordance with IPSAS 17, or IPSAS 31 as appropriate.
- service concession assets accounted for as a separate class of assets



Liability recognition

- Grantor recognizes concession liability depending on the way the grantor compensates the operator
- **Financial liability model**; The grantor compensates the operator for the construction, development, acquisition, or upgrade of a service concession asset by making a predetermined series of payments.
- The IPSAS standards relating to financial instruments (IPSAS 28, 29 and 30) apply to this financial liability.



Grant of a right to the operator model;

The grantor compensates the operator for the construction, development, acquisition, or upgrade of a service concession asset and related services by granting the operator the right to earn revenue from third-party users of the service concession asset or another revenue-generating asset



Operator model cont'd

- The grantor accounts for this liability as the unearned portion of the revenue arising from the exchange of assets between the grantor (a service concession asset) and the operator (an intangible asset)
- The grantor's treatment of revenues and expenses depends on these models: – Financial liability model: The grantor allocates payments to the operator according to their substance as a reduction in the liability, a finance charge, and charges for services provided by the operator



Compensation to the operator

- Grantor may compensate the operator for the service concession asset by any combination of:
- Making payments to the operator (the “financial liability” model);
- Granting the operator the right to earn revenue from third-party users of the service concession asset (right model); or
- Granting the operator access to another revenue-generating asset for the operator’s use



Example

County government enter into concession arrangement where the operator will provide specialised treatment in the private wing of a hospital where the remainder of the hospital is used by the grantor to treat public patients

- a private parking facility adjacent to a public facility



Financial liability model

- grantor allocate the payments to the operator and account for them according to their substance as
 - a reduction in the liability recognized
 - a finance charge, and
 - charges for services provided by the operator.
- The finance charge and charges for services provided by the operator accounted for as expenses.



Right to the Operator Model

- If the operator has the right to earn revenue from third-party users or another revenue-generating asset,
- the grantor account for the liability recognized as the unearned portion of the revenue arising from the exchange of assets between the grantor and the operator.



Accounting for PPPs

- IFRIC 12 *Service Concession Arrangements* 2006
- IPSASB issued IPSAS 32 *Service Concession Arrangements – Grantor* 2011
- Existing accounting treatment only covers style long-term service contracts
- Focus on which party has control



Issues arising from accounting treatment

- IFRIC 12 improves disclosure but creates a balance sheet measurement problem for assets and liabilities:
 - Asset valuation under a fair value approach is more subjective
 - It does not address the issue of contingent liabilities, which remain a matter for



Issues arising from accounting treatment cont'd

- Many European governments are in the process of adopting IPSAS, but the net debt problem still remains:
 - Whilst the UK uses mirror image IFRIC 12 to prepare government financial statements, the debt associated with PFI still remains off balance sheet and is still excluded from net debt calculations prepared according to Eurostat guidelines
 - It would be politically controversial to change Eurostat



Issues arising from contracts;

- Poor transparency/restricted access to contract detail
- Lack of skills/public resources devoted to monitoring and using performance data, in contrast to private sector
- Payment mechanisms do not deliver budget certainty nor mitigate against costs to the public sector
- Difficult to determine penalties applied, most seem to be small or non-existent



Issues arising from contracts cont'd

- There are opportunities for further arbitrage around contracts to avoid meeting the IFRIC 12 definition
- Furthermore, contract negotiation is not a neutral activity:
 - Many contracts are subject to political will
 - Financial and legal advisors have a vested interest in maintaining the market:
 - Conflicts of interest abound

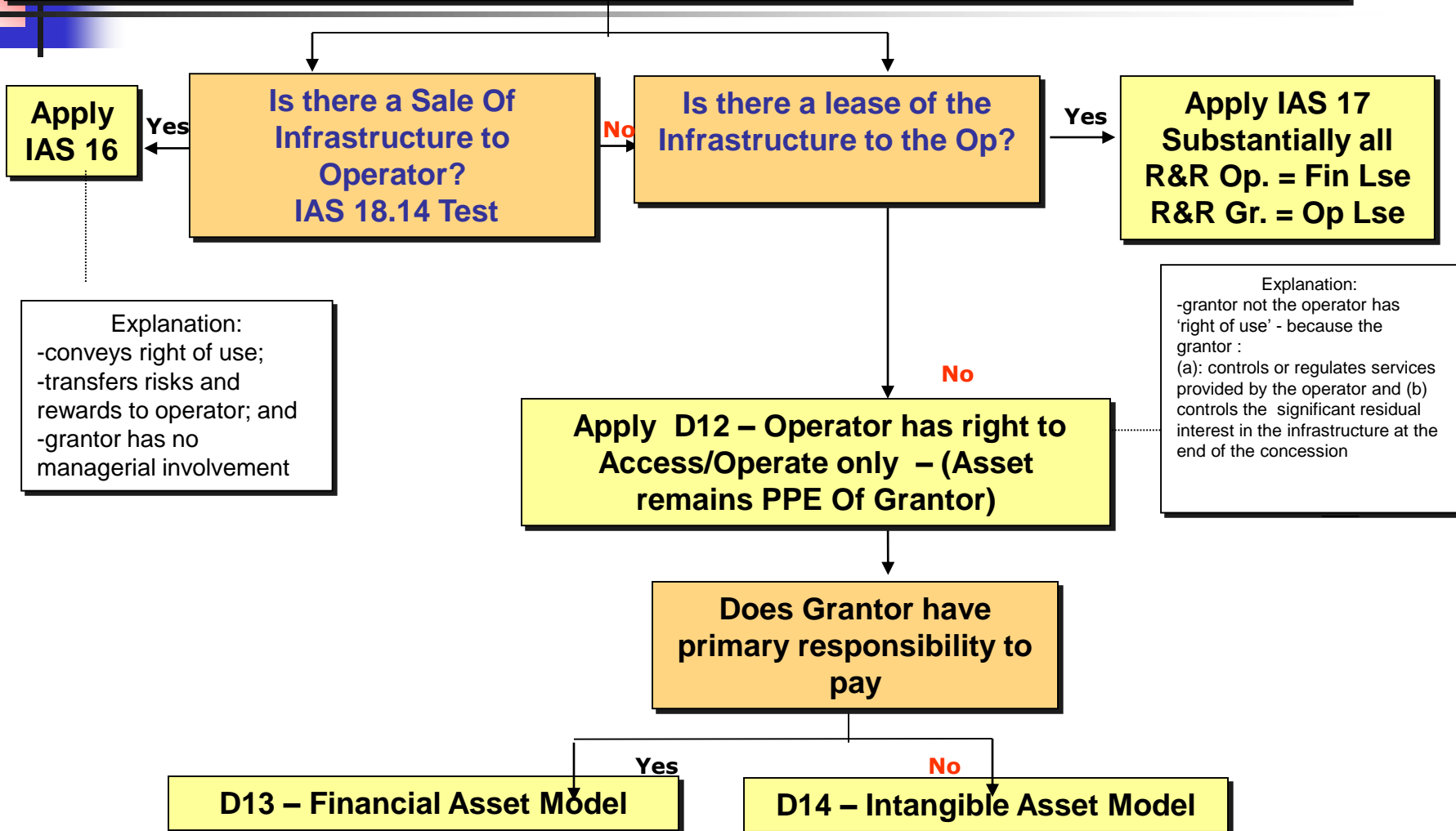
Treatment of Infrastructure – Books of Operator

Determine whether Operator should recognise PPE

Infrastructure comprises/includes pre-existing assets of Grantor

Recognition /DeRecognition

Grantor has right of use

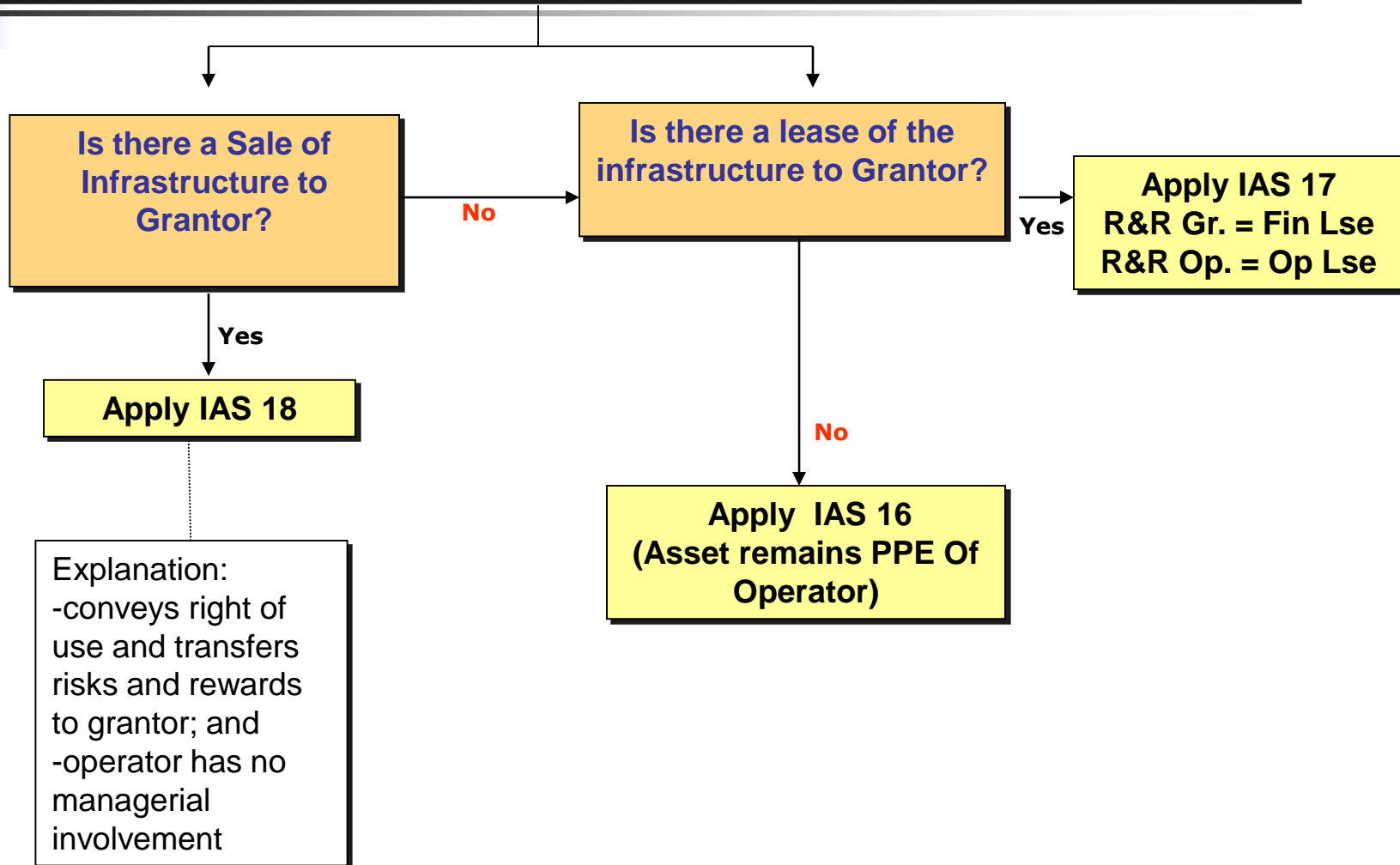


Treatment of Infrastructure – Books of Operator

Determine whether Operator should recognise PPE

Pre-existing Infrastructure of Operator (used exclusively for purposes concession)

Derecognition IAS 16



Determine whether Operator should recognise PPE`

Infrastructure is constructed or acquired* by the Operator

Grantor

**Operator supplied
construction
services/acquires on
grantors behalf**

See flowchart A

Explanation:
Whose asset?
-Definition of
an asset from
Framework;
-Definition of
PPE from IAS
16

Operator

**Operator
constructed/acquired own
asset**

See flowchart B



- **Public Private Partnerships (PPPs)** can be defined as co-operative institutional arrangements between public and private actors
 - Most common form is the **PFI (Private Finance Initiative)**
- Global interest and involvement in PPPs continues to grow:
 - Worldwide investment in roads, rail, water & buildings
 - Investment in energy and telecom



Rationale for PPPs

- Key Drivers for PPS could be;
 - Need for private sector efficiencies
 - In some economies, PPPs enable debt to be kept off the public sector balance sheet
 - Need for improved infrastructure in order to bring about economic development
 - May be requirement in order to receive funding e.g. from WB/IMF
 - May also be need for assistance with financial management expertise



Rationale cont'd

- The financing of long-term infrastructure is based upon a non-recourse or limited recourse financial structure where the debt and equity used to finance the project are paid back from the cash flows generated by the project.



Why Embrace PPP

- Focus on outputs
- PPPs make projects affordable
- Better value for money over the lifetime of the project
- More efficiency in procurement
- Faster project delivery with more projects in a defined timeframe
- Risks are allocated to the party best able to manage the risk



Embrace cont'd

- Deliver certainty of budget and outcomes
- Better asset utilisation and social and economic benefits
- Sustainable development and improved regulation
- Public sector only pay when services are delivered
- Injection of private sector capital



Major Phases of PPP

- Initial feasibility
- Procurement phase
- Construction phase
- Operation phase



Major Focus in these phases

- Optimal risk sharing
- Risk borne by the party best able to manage it
- Risk management process
 - Identification
 - Risk quantification
 - Allocation
 - Mitigation
 - Risk monitoring and control



Sustainability of ppp projects

- Embedded environmental and social safeguards
- Focus on longer timescales
- Public, business and government working in partnership
- Consider and manage the success factor
 - Political will
 - Government commitment
 - PPP Champion
 - Clear output specification
 - Appropriate risk sharing
 - Value for money
 - Performance management



Disclosures

- disclose the following information in respect of service concession arrangements in each reporting period:
- A description of the arrangement;
- Significant terms of the arrangement that may affect the amount, timing, and certainty of future cash flows (e.g., the period of the concession, re-pricing dates, and the basis upon which re-pricing or re-negotiation is determined);



Disclosures cont'd

- The nature and extent (e.g., quantity, time period, or amount, as appropriate)
- Changes in the arrangement occurring during the reporting period.



PAST PROJECTS IN KENYA

1. Mtwapa and Nyali Bridges Concessions signed in 1959.
Charges in 1984 were as follows:

- Pedestrians (10cts)
- Cattle head (20cts)
- Motorcycle (50cts)
- Salon (sh. 2.00)
- W/wagon (sh. 2.50)
- Lorry (sh 4.00 -7.00)
- Bulldozer (sh. 10)



Energy Sector:

- Westmount 46 MW (not active)
- Iberafrica 1997 (56MW and 53 thermal power plant)
- The 74 MW Tsavo/Kipevu IPP, 2000
- Orpower –Olkaria III 2000/2008 (48MW Geothermal Plant)
- Mumias (34MW power plant)
- 90 MW Rabai IPP in 2009
- Mumias 26 MW cogeneration

3.KPLC, 2005, 2yr management contract


4.Port of Mombasa Grain Terminal – BOO, 1998

5.JKIA – Cargo Terminal, 1998

6.Malindi water utility, 1999 – 5year Management Contract

7.Nairobi Urban Toll Road, 2009 – Failed

ON-GOING PROJECTS;Independent Power Producers (IPPs) Projects

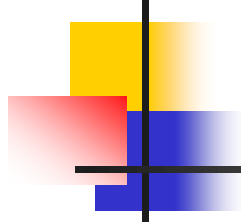


IPP Name	Type	Capacity MW	Remarks
Thika Power	Thermal	87	Financial Close in July, 2012
Triumph	Thermal	82	Financial Close in August
Gulf Power	Thermal	80.3	Financial Close in August, 2102
Orpower	Geothermal	52	Financial Close in June, 2012
Lake Turkana	Wind	300	financial Close in Sept, 2012
Aeolus - Kinangop	Wind	60	2015-2016
Agil Longonot	Geothermal	140	2015-2016
Menengai	Geothermal	4x100	2014-2016
Imports - Ethiopia	Hydro	400	2016-2017

THE PUBLIC PRIVATE PARTNERSHIPS ACT, 2013

No. 15 of 2013

Date of Assent: 14th January, 2013



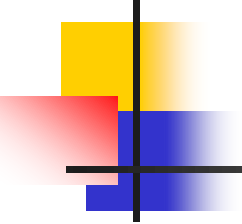
PART 1 - PRELIMINARY

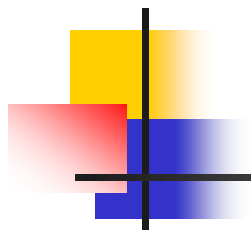
**PART II - ESTABLISHMENT OF THE PUBLIC
PRIVATE PARTNERSHIP COMMITTEE**

**PART III - ESTABLISHMENT OF THE
PUBLIC PRIVATE PARTNERSHIP UNIT**

**PART IV-ESTABLISHMENT OF PUBLIC PRIVATE
PARTNERSHIP NODES**

PART V - PUBLIC PRIVATE PARTNERSHIPS

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- **PART VI -PROJECT IDENTIFICATION AND SELECTION OF PRIVATE PARTY**
 - **PART VII - SOLICITED BIDS**
 - **PART VIII - PRIVATELY INITIATED INVESTMENT PROPOSALS**
 - **PART IX - PROJECT AGREEMENTS**
 - **PART X - FINANCIAL PROVISIONS**
 - **PART XI - MISCELLANEOUS PROVISIONS**
 - **PART XII - SAVINGS AND TRANSITIONAL PROVISIONS**



Thank you

Interactive session