Public Sector Accounting Board (PSAB) Statement of Principles on Public-Private Partnerships – Summary Comments from CUPE

- We welcome PSAB's initiative to establish public sector accounting standards for public-private partnerships (P3s). The growing use of P3s is creating massive public debt obligations that aren't reflected in public financial statements. Existing public accounting and budgetary practices provide a strong bias for politicians and governments to use P3s for public infrastructure instead of public financing and operation.

- However, PSAB should ensure that transparent and stringent public accounting standards also apply to all public or private operations that provide public services and receive public funding, including other forms of public-private partnerships beyond those more strictly defined, such as design, build, and long-term financing projects, public-private partnerships where the government doesn't have a significant residual interest, and payment by results or social impact bond schemes.

- The reality is that the ultimate risk and responsibility for ensuring that public infrastructure continues to operate, and the associated public services are delivered remains with the government. The public entity doesn't need to have complete control over the price, access or use of the infrastructure, nor should it need to provide all the funding – in some cases it provides the private sector with public assets, land, the right to earn revenues or other non-financial considerations.

- Valuing public assets at cost or for a nominal amount provides a significant incentive to sell off public assets, privatize infrastructure and engage in P3s. Canada should implement international public sector accounting standards and international best practices that require that property, plant and equipment be measured at their fair values.

- Governments should be required to use the appropriate public sector borrowing costs (such as long-term bond yields) as discount rates to calculate the present value of cash flows and liabilities associated with P3s. These would be directly observable, consistent and would increase transparency, requiring P3 projects to explicitly calculate and account for risk transfers.

- At the same time, public entities should also be required to report the nominal estimated contractual cash flows and equivalents associated with P3 projects, individually and in aggregate, as other countries have done and as recommended by IMF experts. This would much further increase transparency and accountability and provide consistency in a context where discount rates vary.

- We strongly support more detailed and comprehensive disclosure requirements for P3s as proposed in Principle 7 and as required in the International Public Sector Accounting Standards (ISAS 32, paragraph 32). Details on all costs, including estimated capital, operating and maintenance, minimum revenue guarantees, and the value of non-financial considerations should be required to be reported for each project, and in aggregate, and on an annual basis and these should also provide for estimated nominal cash flow amounts. Governments should also be required to disclose all contract documents, significant terms, changes, inputs and assumptions, including the discount rates and estimated risk transfers, associated with P3 projects.

- These principles and disclosure requirements should also apply to the processes and business cases through which decisions are made to opt for P3s or public procurement. And because these enhanced accounting standards are unlikely to eliminate the public sector accounting bias towards P3s, governments should be required to adopt other more stringent budgetary and public finance practices to eliminate these biases and inappropriate fiscal incentives to engage in P3s.