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Opinion n° 2014-02 of 17 October 2014 relating to the new Standard 18 "Contracts for the provision of public services" of the Central Government's Accounting Standards Manual

1. Background

On 8 December 2011 the Public Sector Accounting Standards Council adopted Opinion n° 2011–11 relating to the treatment of contracts for the provision of public services in the accounts of public entities. Opinion n° 2012-03 of 3 July 2012 incorporated its requirements into Standard 6 of the Central Government's Accounting Standards Manual (RNCE) "Tangible Assets".

The Council proposes the creation of Standard 18 "Contracts for the provision of public services" of the Central Government's Accounting Standards Manual and to delete the corresponding section in Standard 6 "Tangible Assets".

The presentation of all of the recognition and measurement requirements relating to contracts for the provision of public services in a single standard provides a complete overall view of the relevant accounting requirements. This choice of presentation is in addition consistent with that of international standards. Lastly, it enables the scope of Standard 6 "Tangible Assets" to refocus on the treatment of assets, by excluding those items in the contracts which do not meet the definition of an asset.

2. Main requirements of the Opinion

Until now, in order to preserve an overall view of the requirements of Opinion n° 2011-11 of the Council, Standard 6 “Tangible Assets” included the main requirements relating to the treatment of contracts for the provision of public services, that is the recognition and measurement requirements for the contractual asset and for the consideration exchanged (i.e. recognition of a financial liability or an entry in net assets/equity). It was decided at this stage not to address the related financial liabilities in Standard 11 “Financial debts and derivative financial instruments”.

The new Standard 18 “Contracts for the provision of public services” transposes the provisions of Opinion n° 2011-11 previously included in Standard 6 “Tangible Assets” (see above). The requirements relating to general control criteria for an asset and to the amounts payable by Central Government other than those related to the funding of the equipment are included in the new Standard. In addition, certain items of the provisions of Opinion n° 2011-11 have been supplemented. Thus, the new Standard clarifies the accounting treatment at the end of contracts for the provision of public services.

3. Qualification of the change

This Opinion does not modify in substance the accounting requirements for contracts for the provision of public services; it enables their presentation in a Standard dedicated to the recognition and measurement of such contracts.

These presentational changes are not within the scope of Standard 14 “Changes in Accounting Policies, Changes in Accounting Estimates and Errors” of the Central Government’s Accounting Standards Manual.

4. Effective Date

The Public Sector Accounting Standards Council proposes immediate application of the Opinion.

Version published 17 December 2014

STANDARD 18
CONTRACTS FOR THE PROVISION OF PUBLIC SERVICES

STANDARD 18 – CONTRACTS FOR THE PROVISION OF PUBLIC SERVICES

INTRODUCTION

I. BACKGROUND AND SCOPE OF THE STANDARD

The Standard "Contracts for the provision of public services" includes all the accounting requirements for assets[1] under contracts for the provision of public services.

The assets within the scope of this Standard are those provided, constructed or acquired by another party for the purposes of providing a public service as part of a binding arrangement between Central Government and this other party[2]. It is necessary to consider the accounting treatment not only of the asset but also of the corresponding consideration in the accounts of Central Government. In some cases, the contract entails the use of an asset already controlled by Central Government.

The Standard defines the accounting treatment of the asset notwithstanding any contrary provisions which may exist in Standard 6 "Tangible Assets"[3].

The Standard sets out successively the requirements for recognition and measurement of the asset as well as requirements for the corresponding consideration (i.e. recognition of a financial liability or an entry in net assets/equity). The presentation of the latter in a single standard provides a complete overall view of the requirements of Opinion n° 2011-11 of 8 December 2011 Public Sector Accounting Standards Council [4].

II. DEFINITION

Assets used by Central Government for the provision of public services (roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, energy supply and telecommunication networks, etc.) are generally acquired, constructed, operated and maintained by Central Government using public funding. However, government may involve other private or public sector entities in the construction, development, financing, operation and maintenance of assets used for the provision of a public service directly by Central Government or by these entities, which in this case operate the assets as well. These contracts may be described as contracts for

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1 Assets within the scope of the Standard may include equipment and structures.

2 Assets transferred by Central Government to public or private entities or assets already held by Central Government handed over to other parties that operate them for their own benefit as part of a contractual arrangement or in application of a unilateral decision (such as a decision to authorise occupation of public property) are outside of the scope of this Standard. See Standard 6 for the accounting treatment applicable to assets transferred or handed over by Central Government or for which the latter has authorised the occupation.

3 The same requirements apply, all things being equal, to intangible assets (se footnote 6).

4 Opinion n°2011-11 of the Public Sector Accounting Standards Council of 8 December 2011 relating to the treatment of contracts for the provision of public services in the accounts of public entities.

the provision of public services which Central Government has concluded with another party[5]. Although the scope of the Standard is not defined by reference to any particular legal model, it does cover assets provided, constructed, acquired or financed as part of partnership arrangements[6/7] or of delegations of public service[8], in particular service concession arrangements[9].

According to this Standard, an asset, under a contract for the provision of a public service, forms a coherent unit[10] defined in the contract and classified in accordance with Standard 6 "Tangible Assets" based on the nature of the unit (dam, motorway…).

The Standard also addresses the accounting treatment of the consideration exchanged for the assets, irrespective of the legal status of the contract. The accounting treatment is based on an examination of the terms of the contract.

5 Hereinafter, the co-contracting party is referred to as the other party. Different terms may be used to describe the other party depending on the legal sources: co-contracting party, delegatee, etc. (see footnotes 6 and 8).

6 The partnership contract is defined by article 1 of the Order of the 17th June 2004 amended by Law n° 2008-735 of the 28th July 2008 as follows:
" I. —A partnership contract is an administrative contract under which the State or a State-run entity entrusts to a third party, for a period set according to investment amortization or agreed financing terms, a comprehensive project related to the funding, construction or conversion, upkeep, maintenance, operation or management of works, equipment or intangible assets necessary to provide a public service. It may also have as its object all or a part of the design of such works, equipment or intangible assets as well as the provision of services for which the public body is responsible under its public sector mission. II. — The co-contracting party of the public body shall assume the operational responsibility for the works to be carried out. It may be assigned, with its consent, all or a part of the contracts executed by the public body in fulfilling its public sector mission. The co-contracting party shall receive payment from the public body throughout the term of the contract. Payment shall be tied to performance objectives assigned to the co-contracting party (…)".

7 It should be noted that contracts authorising temporary occupation of public property (AOT) linked to a lease with a purchase option (LOA) and including a public service clause may be considered as contracts for the provision of public services. Consequently, this type of contract is within the scope of Standard 18. Where no service is provided, AOT/LOA are classified as finance leases within the scope of Standard 6 "Tangible Assets".

8 The delegation of public services is defined, as far as the Central Government is concerned, by article 38 of Law n° 93-122 of the 29th January 1993 relating to the prevention of corruption and to transparency in economic life and public procedures, in the so-called "Sapin Law". This definition was codified in article L. 1411-1 sub-paragraph 1 of the General Code for Local Authorities which defines a delegation of public services as "*a contract in which a corporate public entity entrusts the management of a public service for which it is responsible to a delegatee which may be either a private or public entity, in exchange for compensation which is substantially linked to the operating results of the public service. The delegatee may be responsible for the construction or acquisition of the assets necessary to provide the service"*.
A service concession arrangement is one of the main types of contract used for the delegation of public service. According to doctrine, a service concession arrangement is defined as "*a contract in which a public sector entity (the grantor) entrusts public works and/or the provision of a public service to a corporate entity (the operator), generally from the private sector, at the latter's own risk and for a defined period, which is generally long, in exchange for the right to charge the users of the public service a fee."*

9 There are other types of contract for the delegation of public service under French Law ("l'affermage," "la régie intéressée," "la gérance"…) but they do not usually include the provision, the construction or the acquisition of assets by the independent operator although it cannot be totally excluded. It occurs in certain contracts ("affermage"). Wherever this situation arises, this Standard applies to the assets provided, constructed, acquired by the other party for the purposes of operating the delegated public service.

10 A coherent unit is a functional group made up of different kinds of items (structures, plant, equipment...) necessary or useful to the other party in delivering the service according to the terms of the contract.

The coherent unit concept is used to determine the classification of the contractual asset with regard to the initial and reporting date measurement requirements of Standard 6 Tangible Assets.

III. RECOGNITION OF THE ASSET

The contractual asset is recognised in the accounts of Central Government provided both of the following conditions are met:

> the asset is controlled by Central Government[11] ;

> its cost or value can be measured with sufficient reliability.

III.1. Indicators of control

In order to determine whether Central Government satisfies the control criteria defined in Standard 6 "Tangible Assets" and included in this Standard, a certain number of indicators have been defined. These indicators provide evidence of the existence of control by Central Government. It is not necessary for all of these indicators to be identified to confirm the existence of control by Central Government.

1- The inability of the other party to sell or pledge the asset.

The ability of the other party to pledge the asset is not sufficient in itself to demonstrate control by the latter, especially if the asset is pledged for a limited period, with the consent of Central Government and if it does not affect the transfer of the asset to Central Government at the end of the contract.

2- The occupation of public property.

3- Central Government specifies the characteristics of the asset.

4- The conditions of management of the public service are mainly specified by Central Government[12].

Without directly managing the public service, Central Government determines the contractual conditions of management of the public service, and consequently controls the asset.

5- Regulation of the income derived from the asset by the other party.

There is a presumption that Central Government controls the asset when the contract enables it to exercise a degree of control over income derived from the asset by the other party. Central Government exercises control by remunerating or compensating the other party[13], or alternatively by fixing the remuneration conditions of the latter.

Control exists when the other party's income represents remuneration for services performed as part of the management of the public service, in particular if this remuneration is unrelated to the level of use of the asset for public service.

Control is less evident when the other party's income is related to the level of use of the asset. Nevertheless, it may exist as a result of the Central Government's power to fix prices, whether

11 It is noteworthy that the European System of National Accounts (ESA 95) has currently adopted a risk-based approach to accounting for public-private partnership assets.

12 This indicator applies more specifically to concessions.

13 This applies to the majority of public-private partnership arrangements.

this power is contractual or regulatory, irrespective of whether the power is exercised by Central Government.

Central Government may also exercise control over income where the other party is contractually bound to pay royalties when specified contractual income or profit levels are reached.

6- The transfer by the other party to Central Government of the contractual rights and obligations relating to the asset at the end of the contract.

These rights and obligations may be transferred to Central Government with or without charge.

III.2. Reliability of measurement

A fixed asset is recognised on the condition that its cost or value can be measured with sufficient reliability. Otherwise, recognition is postponed until such time as that condition may be satisfied.

III.3. Presentation of the financial statements

Fixed or similar assets placed under concession and the amount of work in progress for concession assets shall be identified separately in the financial statements.

III.4. Capitalisable subsequent expenditure

General Principles

An asset recognised in the Central Government's balance sheet that is under a contract to provide public services may undergo subsequent expenditure. This expenditure is capitalised where it has the purpose, under the terms of the contract, of restoring the financial balance between the parties[14] and if it is probable that future economic benefits or service potential will flow to Central Government, which is greater than the most recent assessment of the level of performance originally defined for the existing asset or defined when the expenditure is incurred. The difference compared to the original level represents an increase in the useful life of the asset, an expansion of its capacity, a decrease in the cost of use or a substantial improvement in production quality.

Minor repairs, routine upkeep and maintenance, one for one replacement or restoration without improvement in the level or quality of service are not capitalised.

Assets measured at cost at the reporting date

Any subsequent expenditure that meets the above conditions for capitalisation is recognised as an asset. It is not presented separately in the balance sheet of Central Government.

[14] By extending the contract or by changing the financial terms.

Assets measured at fair value or at depreciated replacement cost at the reporting date

Any subsequent expenditure of a capital nature, in accordance with the above principles, is taken into account in determining the market value or depreciated replacement cost of the relevant assets at the reporting date. It is not, therefore, recognised separately in the Central Government's balance sheet, and does not require a depreciation schedule.

IV. MEASUREMENT

IV.1. Measurement on initial recognition

The basis for measuring assets under a contract to provide public services on initial recognition is set out in the Standard.

IV.2. Measurement at the reporting date

At the reporting date, assets acquired by Central Government for the purposes of contracts for the provision of public services shall be measured according to the requirements applicable to other assets of the same class as defined in Standard 6 "Tangible Assets".

Central Government may recognise[15] impairment when tests conducted following an evident deterioration of the physical state of the asset provide evidence of significant damage, caused by exceptional circumstances (for example, terrorist attacks, flooding fire, etc.), which prevent its normal use. In addition, where Central Government has knowledge of an event making it impossible in the short term to use the asset according to the terms of the contract, tests are carried out to determine if there is evidence of technical obsolescence. If the tests confirm the asset is obsolescent, Central Government recognises appropriate impairment.

The asset is measured taking into account any contractual obligation of the other party to maintain the asset on a regular basis and hand it over to Central Government at the end of the contract with the same level of service as at the outset. Contractual terms of this kind make it unnecessary to depreciate or impair the asset in the Central Government's accounts.

V. CONSIDERATION EXCHANGED FOR THE INITIAL COST OF THE ASSET

The Standard addresses the treatment of the consideration exchanged for the asset under a contract for the provision of public services in the accounts of Central Government.

V.1. Amounts paid by Central Government to fund the asset

Central Government may have an obligation under the terms of the contract to make payments to fund the assets[16]. The payments are usually made according to a schedule included in the contract.

[15] Subject to any specific contractual provisions.

[16] The payments may take the form of a charge covering the capital cost of the investment or of a financial facility; irrespective of the name they are given.

Certain payments may be due by Central Government during or before the construction phase.

These amounts meet the definition of a financial liability for Central Government and are recognised when the latter is contractually obliged to pay, provided they can be reliably measured.

Subsequently, Central Government recognises the amounts paid to fund the assets as a reduction in the amount of the financial liability initially recognised and as related interest expense.

Under the terms of the contract for the provision of public services, the funding of the assets may be granted to the other party but paid over by Central Government only after the completion of certain construction phases. These amounts are recognised as financial liabilities in accordance with the contract up until the payment date.

In the case of public-private partnerships, the capital amount stipulated in the contract or, if not, the present value of charges in respect of the investment, represent a liability for Central Government on recognition of the asset.

Financial liabilities are recognised at the capital amount stipulated in the contract or, if not, at the present value of the amounts payable by Central Government to fund the asset.

V.2. Difference between the initial cost of the asset and the amounts payable for funding

The financial liability recognised by Central Government is usually equal to the cost of the asset on initial recognition, as in many public-private partnership contracts. In this case, the financial liability given as consideration by Central Government is recognised for exactly the same amount as the asset.

Conversely, when the other party's remuneration is generated entirely by the users of the service, there is no financial contribution by Central Government as in the case of concession contracts. In this case the consideration exchanged on recognition of the asset is an increase in net assets/equity. This treatment reflects the expected increase in the net assets of Central Government which will be fully realised at the end of the contract without any cash outflow.

In other cases, the amount of the financial liability is less than the cost of the equipment recognised as an asset (the other party's remuneration covering the funding of the asset comes from payments made both by Central Government and users). Any difference between the initial cost of the asset and amounts payable for funding is recognised in net assets/equity. This treatment reflects the expected increase in net assets of Central Government which will be fully realised at the end of the contract without any cash outflow.

In those cases where depreciation or impairment expense has been recognised through the surplus/deficit statement, a release of the amount initially recognised in net assets/equity is made through surplus/deficit statement. This release is equal to the amount of the expense and is adjusted where appropriate to take account of the proportion of the amount initially recognised in net assets/equity as compared to the initial cost of the asset[17].

[17] As an illustration, if for a given contract: (i) an asset of of 100 currency units (CU), a financial liability of 90 CU and an increase of net assets/equity of 10CU are recognised in Y and (ii) an impairment of the equipment of 20 CU is recognised in Y+1, a reversal of the amount initially recognized in net assets/equity of 2CU will be made through the surplus/deficit statement.

VI. RECOGNITION OF OTHER CONTRACTUAL ITEMS

VI.1. Amounts payable by Central Government other than for funding the asset

Where the terms of the contract require Central Government to make a down payment or other payments over the term of the contract, which are not directly related to the construction or the acquisition of the asset, the latter are recognised, where applicable, as period expense in accordance with Standard 2 “Expenses”[18]. Other debts of a non-financial nature are measured according to the requirements of Standard 12 “Non-financial Liabilities”.

VI.2. Amounts received by Central Government

Certain contracts require the other party to make cash payments to Central Government. This occurs in particular where the other party receives remuneration from users in excess of the cost of operating the public service.

The Central Government’s contractual revenue is recognised on a straight-line basis in the surplus/deficit statement. In principle, the amounts receivable by Central Government are billed evenly over time so that recognition as revenue of the amounts billed corresponds to a straight-line basis.

The application of a straight line basis for revenue recognition may, however, require an accounting adjustment through the use of deferral accounts where, without any economic justification, the billing is not evenly spread over time. Thus, for example, when the public entity receives a material amount on signature of the contract as an entry fee, this remuneration is spread on a straight-line basis over the life of the contract.

Where remuneration is linked to contractual performance criteria, this fraction of the remuneration is allocated to the periods in which the performance is achieved, as soon as Central Government has knowledge of it.

VII. ACCOUNTING TREATMENT AT THE END OF THE CONTRACT FOR THE PROVISION OF PUBLIC SERVICES

Where the assets are financed by Central Government over the life of the contract, which usually applies to partnership contracts, the financial liability initially recognised, is paid off by the end of the contract. The end of the term of the contract does not give rise to any particular transactions in Central Government’s balance sheet.

With regard to other assets which revert to Central Government at the end of the contract:

- if the asset is already controlled by Central Government, the increase in net assets/equity arising on the initial recognition of the asset is unaffected;
- if the asset is not already controlled by Central Government, the asset is recognised and the equivalent consideration is recognised in net assets/equity.

[18] This applies to operating fees payable by Central Government or the interest portion of funding payments.

Where the contract provides for compensation payable by Central Government on return or recovery of the asset, the compensation is recognised as an expense of the period in which it is due, once the returned or recovered asset is recognised in the Central Government's balance sheet.

Assets acquired by Central Government through contracts for the provision of public services shall be measured according to the requirements applicable to other assets of the same class as defined in Standard 6 "Tangible Assets".

When, at the end of the concession period, Central Government wishes the assets to remain under concession until a new contract is signed, the requirements of Standard 18 continue to apply and an appropriate disclosure is made in the notes.

VIII. POSITION OF THE STANDARD WITH REGARD TO OTHER ACCOUNTING STANDARDS ON FIRST APPROVAL OF THE CENTRAL GOVERNMENT'S ACCOUNTING STANDARDS MANUAL IN 2004

The Standard was issued after the first approval of the Central Government's Accounting Standards Manual in 2004. However, requirements for concession arrangements were included in Standard 6 "Tangible Assets".

The latter Standard stipulated that in accordance with Article 393-1 of the French Chart of Accounts (PCG), assets provided by the grantor or the operator for the purpose of the concession arrangement were recognised in the balance sheet of the operator.

It required the disclosure of a list of the main types of concession arrangements in the notes to the financial statements.

IX. POSITION OF THE STANDARD WITH REGARD TO OTHER ACCOUNTING STANDARDS AFTER AMENDEMENT IN 2012 AND 2014

After the issue by the Public Sector Accounting Standards Council of Opinion n° 2011-11 of 8 December 2011 relating to the treatment of contracts for the provision of public services in the accounts of public entities, the accounting requirements of Standard 6 of the Central Government's Accounting Standards Manual were reviewed and published by Order of 21 August 2012. This Standard incorporates the latter requirements to ensure a separate presentation of the treatment of contracts for the provision of public services. These requirements are convergent with IPSAS 32 "Service Concession Arrangements: Grantor", with the exception of the accounting treatment of contracts for which the consideration given by Central Government is not entirely in the form of a financial liability. As the balance sheet recognition of these assets does not give rise to the outflow of cash or an equivalent asset, or to a financial liability, it was decided that this increase in assets should be recognised directly in net assets/equity. This treatment differs from that of IPSAS 32 which classifies the consideration exchanged as a non-financial liability.

STANDARD 18 – CONTRACTS FOR THE PROVISION OF PUBLIC SERVICES

REQUIREMENTS

1. DEFINITION

Central Government may conclude contracts with other parties to provide public services under its control.

The public service provided by the other party generally includes the provision, construction or acquisition of an asset for the purposes of the contract. In some cases, the contract may stipulate that the service may be provided using an asset already under the control of Central Government.

For the purposes of this Standard, an asset, under a contract for the provision of a public service, forms a coherent unit[19] defined by the contract. The Standard applies to assets, liabilities and other accounting elements according to the terms of the contract.

2. RECOGNITION OF THE ASSET

The asset defined in the contract is recognised by Central Government if:

> it is controlled by Central Government;

> its cost or value can be measured with sufficient reliability.

Central Government applies these recognition criteria to costs when the latter are incurred.

2.1. Control criteria

The characteristics of control are:

> control over the conditions of use of the asset;

> control over the service potential and / or the future economic benefits derived from this use.

Recognition of the asset takes place when control is transferred, which is generally when the risks and rewards associated with ownership are transferred.

There is a presumption of control by Central Government when the latter assumes the risks and expense associated with ownership.

[19] A coherent unit is a functional group of different kinds of items (structures, plant, equipment...) necessary or useful to the other party in delivering the service according to the terms of the contract.

The coherent unit concept is used to determine the classification of the contractual asset with regard to the initial and reporting date measurement requirements of Standard 6 “Tangible Assets”.

The following indicators provide evidence of the exercise of control of an asset under a contract for the provision of public services by Central Government:

- the inability of the other party to sell or pledge the asset;
- the occupation of public property;
- Central Government specifies the characteristics of the asset;
- the conditions of management of the public service are mainly specified by Central Government;
- regulation of the income derived from the asset by the other party;
- the transfer by the other party to Central Government of the contractual rights and obligations relating to the asset at the end of the contract.

It is not necessary for all of these indicators to be identified to confirm the existence of control by Central Government.

2.2. Reliability of measurement

A fixed asset is recognised on the condition that its cost or value can be measured with sufficient reliability. Otherwise, recognition is postponed until such time as that condition may be satisfied by Central Government.

2.3. Equipment under construction

Control over equipment under construction is determined by reference to the criteria and indicators set out above.

When the cost of the equipment under construction cannot be measured reliably, recognition is postponed until such time as Central Government is able to make a reliable estimate of its cost. As a result, recognition may be delayed until the commissioning of the equipment.

2.4. Capitalisable subsequent expenditure

General Principles

An asset recognised in the Central Government's balance sheet under a contract to provide public services may undergo subsequent expenditure. This expenditure is capitalised where it has the purpose, under the terms of the contract, of restoring the financial balance between the parties[20] and if it is probable that future economic benefits or service potential will flow to Central Government, which is greater than the most recent assessment of the level of performance originally defined for the existing asset or defined when the expenditure is incurred. The difference compared to the original level represents an increase in the useful life of the asset, an expansion of its capacity, a decrease in the cost of use or a substantial improvement in production quality.

Minor repairs, routine upkeep and maintenance, one for one replacement or restoration without improvement in the level or quality of service are not capitalised.

[20] By extending the contract or by changing the financial terms.

Assets measured at cost at the reporting date

Any subsequent expenditure that meets the above conditions for capitalisation is recognised as an asset. It is not presented separately in the balance sheet of Central Government.

Assets measured at fair value or at depreciated replacement cost at the reporting date

Any subsequent expenditure of a capital nature, in accordance with the above principles, is taken into account in determining the fair value or depreciated replacement cost of the relevant assets at the reporting date. It is not, therefore, recognised separately as an asset in the Central Government's balance sheet, and does not require a depreciation schedule.

3. MEASUREMENT

3.1. Measurement of the asset on initial recognition

The asset is measured at cost on initial recognition.

The cost may include not only external costs incurred by the other party, such as the amounts paid to contractors for construction costs or to the manufacturer of the equipment, but also internal costs, such as the cost of project staff, and capitalised interest expense.

The cost of the investment in private-public partnerships should be mentioned in the contract as stipulated in article 11 of the Order n° 2004-566 of 17 June 2004. Where this information is not available, the asset is capitalised and measured as the total amount of cash outflows representing the amortisation of borrowed capital, under the assumption that Central Government provides the major part of the funding of the asset.

3.2. Measurement at the reporting date

At the reporting date, assets under contracts for the provision of public services shall be measured according to the requirements applicable to other assets of the same class, as defined in Standard 6 "Tangible Assets".

Central Government may recognise[21] impairment when tests conducted following an evident deterioration of the physical state of the asset provide evidence of significant damage, caused by exceptional circumstances (for example, terrorist attacks, flooding, fire, etc.), which prevent its normal use. In addition, where Central Government has knowledge of an event making it impossible in the short term to use the asset according to the terms of the contract, tests are carried out to determine if there is evidence of technical obsolescence. If the tests confirm the asset is obsolescent Central Government recognises appropriate impairment.

The asset is measured taking into account any contractual obligation of the other party to maintain the asset on a regular basis and hand it over to Central Government at the end of the contract with the same level of service as at the outset. Contractual terms of this kind make it unnecessary to depreciate or impair the asset in the Central Government's accounts.

[21] Subject to any specific contractual provisions.

4. CONSIDERATION EXCHANGED FOR THE INITIAL COST OF THE ASSET

4.1. Amounts paid by Central Government to fund the asset

The amounts payable by Central Government for the funding of the asset are recognised as a financial liability.

The financial liability is recognised at the capital amount stipulated in the contract or, if not, at the present value of the amounts payable by Central Government to fund the asset.

4.2. Difference between the initial cost of the asset and the amounts payable for funding

Any difference between the cost of the asset and the initial amount of Central Government's funding liability is recognised in net assets/equity.

Where all or part of the consideration for the asset is recognised through net assets/equity, and depreciation or impairment expense in respect of that asset is subsequently recognised through the surplus/deficit statement, a release of the amount initially recognised in net assets/equity is made through surplus/deficit statement. This release is equal to the amount of the expense and is adjusted, where appropriate, to take account of the proportion of the amount initially recognised in net assets/equity as compared to the initial cost of the asset.

5. RECOGNITION OF OTHER CONTRACTUAL ITEMS

5.1. Amounts payable by Central Government other than for funding the asset

Where the terms of the contract require Central Government to make a down payment or other payments over the term of the contract, which are not directly related to the construction or the acquisition of the asset, the latter are recognised, where applicable, as period expense in accordance with Standard 2 "Expenses"[22].

Other debts of a non-financial nature are measured according to the requirements of Standard 12 "Non-financial Liabilities".

5.2. Amounts received by Central Government

The Central Government's contractual revenue is recognised on a straight-line basis in the surplus/deficit statement over the term of the contract.

Where a part of the revenue is linked to contractual performance criteria, this part is allocated to the periods in which the performance is achieved, as soon as Central Government has knowledge of it.

[22] This applies to operating fees payable by Central Government or the interest portion of funding payments.

6. ACCOUNTING TREATMENT AT THE END OF THE CONTRACT FOR THE PROVISION OF PUBLIC SERVICES

When the asset reverts to Central Government at the end of the contract:

> if the asset is already controlled by Central Government, the increase in net assets/equity arising on the initial recognition of the asset is unaffected;

> if the asset is not already controlled by Central Government, the asset is recognised and the equivalent consideration is recognised in net assets/equity.

Where the contract provides for compensation payable by Central Government on return or recovery of the asset, the compensation is recognised as an expense of the period in which it is due, once the returned or recovered asset is recognised in the Central Government's balance sheet.

Assets acquired by Central Government through contracts for the provision of public services shall be measured according to the requirements applicable to other assets of the same class as defined in Standard 6 "Tangible Assets".

When, at the end of the concession period, Central Government wishes the assets to remain under concession until a new contract is signed, the requirements of Standard 18 continue to apply and an appropriate disclosure is made in the notes.

7. DERECOGNITION AND MEASUREMENT ON DERECOGNITION

A tangible asset shall be derecognised when Central Government no longer has control over it or when the asset has fallen into permanent disuse and no economic benefits or service potential are expected from the asset. The requirements of Standard 6 "Tangible Assets" are applicable.

8. PRESENTATION

8.1. Reporting format

The information provided in the financial statements (balance sheet, surplus/deficit statement and the notes) distinguishes two types of contract: (i) contracts under which the other party has access to the asset in order to provide a public service and (ii) contracts which have the principal purpose of providing funding for the Central Government.

Fixed assets under contracts for the provision of public services are subject to the presentation requirements applicable to other assets of the same class, as defined in Standard 6 "Tangible Assets".

Only assets placed under concession and the amount of work in progress for concession assets are identified as a separate class in the financial statements.

8.2. Presentation of the accounts

Assets and liabilities arising under a contract for the provision of public services are presented as separate balance sheet items. Detailed commentary is provided in the notes to the financial statements.

9. DISCLOSURES IN THE NOTES

9.1. Disclosure of accounting policies

The notes set out the accounting policies adopted for recognising assets and liabilities relating to contracts for the provision of public services, in particular with respect to their entry cost and depreciation schedule. Disclosure is made of the way in which the other party's maintenance obligations are taken into account in determining the useful life of the assets.

9.2. Disclosure of accounting information

The disclosures for assets and liabilities relating to contracts for the provision of public services are at least equivalent to those required for other assets and liabilities.

Where contract assets are identified on separate lines in the balance sheet, the schedules setting out changes in gross value and depreciation present these lines in the same way as for other classes of fixed assets.

Disclosure is made in the notes of changes of a specific nature such as the transfer to the other contracting party of assets previously managed directly by Central Government, or conversely, the transfer of contract assets to Central Government for direct management by the latter.

Disclosure requirements for financial liabilities contracted in respect of contracts for the provision of public services are the same as for other classes of financial liabilities. They may therefore include the repayment schedule, the type of interest rate (fixed, floating), forfeiture of the term clauses, etc.

Disclosure is made of changes in net assets/equity for the period.

Disclosure is made, in accordance with Standard 12 "Non-financial liabilities", of the amount of any provisions in respect of contracts for the provision of public services at the reporting date, and in particular the amounts provided for anticipated breaches of contract.

9.3. Other disclosures

Central Government:

- provides a breakdown by contract maturity date of the carrying value of assets at the reporting date;
- discloses the contracts for which the investments are not yet reflected in its balance sheet, in application of the requirements of paragraphs 2.2. Reliability of measurement and 2.3. Equipment under construction;
- discloses the financial liabilities arising from contracts for which the investments are not yet recognised in its balance sheet and the corresponding increase in net assets/equity expected as a result of realising the investments;
- discloses the amounts of non-financial liabilities due by Central Government over the residual life of the contracts;
- discloses the carrying amount in its accounts at the reporting date of assets which the other party has an obligation to maintain in good condition;

- discloses compensation and other amounts which it may have to pay at the end of the contracts when recovering the assets;
- describes the method of determining compensation it would incur on early termination of the contracts at its own initiative;
- discloses terminated concession contracts which have not been renewed.