

Key Points and Suggestions on Financial Management of PPP Project Life Cycle

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Abstract

The PPP model fully and effectively utilizes the huge potential of social idle capital, promotes the high-quality development of China's public service infrastructure, and makes people's lives better. 'Enterprise Accounting Standards Interpretation No.14', PPP accounting treatment implementation Q & A and application case release since the implementation of the PPP project contract accounting treatment, but the PPP project financial management is still sound and perfect. Based on the analysis of the key points of financial management of PPP project contract from the four stages of PPP project preparation, project construction, project operation and project transfer, this paper focuses on the problems existing in the financial management of PPP project, and puts forward some reference suggestions based on the specific practice of financial management of PPP project.

Keywords

PPP Project; Financial Management; Supervision.

1. Introduction

PPP projects continue to develop well in China. According to the data of the Ministry of Finance Government and the Social Capital Cooperation (PPP) Center, as of July 2022, there were 59 PPP new storage projects and 77.6 billion yuan of investment in the month, an increase of 4.7 billion yuan, an increase of 6.4%; in that year, there were 338 new PPP warehousing projects, with investment of 536.2 billion yuan, and 3626 reserve list projects with investment of 4.1 trillion yuan.

The PPP model solves the effective integration of the government (government or government investor representative) with the goal of maximizing public services (social benefits) and the enterprise (social capital) with the goal of maximizing shareholder value (interests), and promotes the healthy and rapid development of public services under the condition of limited government financial resources. The essence is the financing of social capital by government capital, and the 'mortgage' of government to enterprise. This model not only gives full play to the government's social welfare function, but also 'awakens' social capital to 'sleep' and improves the efficiency of social capital; it not only solves the problem of insufficient government funds to ensure the play of its social functions, but also provides participation venues for social capital parties, which helps them achieve ideal economic benefits and ultimately achieve a win-win situation between the government and social capital.

The project construction period under the PPP mode is short (generally 2-3 years), but the subsequent operation period is long (generally 10-30 years). At the same time, the PPP project capital investment is large, in addition to the capital invested by shareholders, the project construction also needs to borrow from the bank, so the financial management level is extremely high. The research on financial management of PPP project in China's accounting

field develops with the development of PPP business. In 2021, the Ministry of Finance issued the Accounting Standards for Business Enterprises Interpretation No.14 (hereinafter referred to as " Interpretation No.14 "), which clarifies the accounting treatment of government and social capital cooperation (PPP) project contracts by social capital parties, standardizes the total accounting treatment in China, and further international convergence, providing theoretical guidance for practical operation. However, how to standardize the financial management of PPP projects has not been considered as a whole, and it is usually implemented in practice. However, because PPP projects usually have a duration (usually 10-30 years), the equity involves the direct participation of the government, the operation and management are more rigidly constrained by the government, and the expiration needs to be transferred, so its financial management needs to focus on many aspects.

2. Focus of Project Financial Management under PPP Mode

Financial management mainly includes financial activities and financial relations. The financial activities of enterprises include a series of behaviors such as investment, capital operation, financing and capital allocation. Enterprise capital investment has a wide range of financial relations with all aspects of the enterprise in investment activities, capital operation activities, financing activities and distribution activities. The management of economic business is ultimately financial management. According to the current PPP project cooperation arrangement, the PPP project is divided into four stages according to the project schedule : project preparation, project construction, project operation and project transfer. The financial management is centered on funds, and it also manages the four stages from the aspects of fund raising, asset management, accounting and operating results.

2.1. Key Points of Financial Management in Project Preparation Stage

The focus of financial management in the project preparation stage is mainly to reasonably identify the accounting treatment of PPP projects according to Interpretation No.14, implement capital, supervise the timely investment of projects, set up project companies, and start project construction.

2.1.1. Identify Whether PPP Projects Meet the ' Dual Character ' and ' Dual Control ' Premise

According to Interpretation No. 14, ' double characteristics ' refer to two characteristics : one is that the social capital party uses PPP project assets to provide public goods and services on behalf of the government during the operation period agreed in the contract ; second, the social capital party is compensated for the public goods and services provided by it within the period agreed in the contract. 'Double control ' refers to two aspects of control : first, the government controls or regulates the types, objects and prices of public goods and services that social capital must provide when using PPP project assets ; second, when the PPP project contract is terminated, the government controls the major residual rights and interests of PPP project assets through ownership, usufruct or other forms. PPP project contracts that meet the requirements of " double characteristics " and " double control " are subject to Interpretation No.14 for accounting treatment. This is the basis of PPP project financial management.

2.1.2. Identification of the Accounting Treatment Modes Applicable to PPP Project Contracts

On the basis of the application of Interpretation No.14, the social capital party shall first determine the identity of its main responsible person or agent according to ' Accounting Standards for Business Enterprises No.14 - Income ', and then judge whether the amount of cash or other financial assets that it is entitled to collect during the operation of the project can be determined according to the provisions of the project contract, and choose the appropriate

accounting treatment model (intangible asset model, financial asset model and mixed model). Under different accounting treatment modes, there are significant differences between the accounting judgment and accounting treatment (whether the cash consideration collected during the operation period needs to be apportioned to confirm the interest income, etc.) made by the social capital party in the business stages of project construction, operation maintenance and handover.

2.1.3. Company Registered Capital and Agreed Investment Funds in Place in a Timely Manner

The government and social capital parties establish the project company according to the contract. At this stage, the parties invest the respective funds to establish the project company in accordance with the contract, and the social capital party finances the project by securing the project assets and the project usufruct. The focus of this stage is to urge the government and social capital capital in place in a timely manner, to fulfill the contract and investment agreements, charters, to prevent default, the correct accounting.

2.2. Key Points of Financial Management in Project Construction Stage

The focus of financial management in the project construction stage is mainly to determine PPP project assets, raise funds other than project capital, strictly control project investment, do a good job in accounting basic work, and orderly promote the smooth construction of the project.

2.2.1. Recognition of PPP Project Assets

PPP project asset confirmation is the key link of PPP project. When the PPP project assets reach the predetermined usable state, the contract assets are carried forward to the corresponding assets according to the PPP project investment contract. According to the requirements of Interpretation No. 14, three forms of assets are identified : intangible assets, financial assets and mixed models. Corresponding to the ' user-paid ' operating projects, ' government-paid ' non-operating projects and ' franchise and government financial gap subsidies ' (financial feasibility subsidies) quasi-operating projects.

2.2.2. Capitalized Interest

In general, PPP projects require financing to solve the construction period funds in addition to capital in the investment agreement between the government and social capital. Because most of the PPP projects are local people 's livelihood, basic and public welfare major projects, the demand for construction funds is huge, and the investment amount is generally more than 100 million yuan, some even more than 10 billion yuan. Capitalized interest is an important component of PPP project assets, which is related to the measurement basis and amortization of assets in the future operating period. Therefore, capitalization interest is the content that PPP project financial management needs to pay close attention to.

2.2.3. Investment Control

Investment control is an important part of PPP project budget management, and it is also a key measure for PPP project to be implemented within the budget estimate. PPP investment control must be the control of the whole process of project construction. From the perspective of project decision-making, after design, construction, completion acceptance and project settlement, all links and stages in the whole process are closely related to the asset value (project cost) of PPP project. Investment control always runs through it, and each stage and link is inseparable from the control of project investment (cost). Therefore, the government and social capital and all involved in the PPP project management personnel should understand both management and technology, to participate in the project design, quality inspection, technical supervision and even investment cost accounting. Only by reasonable and effective control of all aspects affecting PPP assets (project cost) can PPP projects achieve the expected investment objectives.

2.3. Key Points of Financial Management in Project Operation Stage

The focus of financial management in the operation stage of the project is mainly on the management of financial status and operating results. It is an important period for realizing the preservation and appreciation of PPP project assets, exerting social benefits and improving the quality of public product services.

2.3.1. Income Management

Interpretation No. 2 is based on whether the project company (that is, the social capital party in Interpretation No. 14) provides actual construction services as a standard, and based on this to determine whether revenue is recognized, which is in conflict with the relevant provisions of ' Accounting Standards for Business Enterprises No. 14 - Income ' (revised in 2017). Interpretation No.14 requires the social capital party to divide its identity as the main responsible person or agent based on the new income criterion, and to confirm the income during the construction period. If the main responsible person is determined as a social capital party (enterprise), then the income will be recognized according to the total consideration ; if the agent is determined to be a social capital party (enterprise), then the income will be confirmed by deducting the total amount of consideration from the price payable to other relevant parties.

2.3.2. Cost Control Management

Cost control management is one of the key links in budget management. The implementation of PPP project cost control is an important means to ensure that the government and social capital to achieve the established cost targets. Effective cost control is an important way to reduce costs, improve economic efficiency and reduce financial feasibility subsidies. The quality of PPP project cost control will directly affect the operation efficiency of PPP project, which is the key to achieve a win-win situation between the government and social capital.

2.3.3. Earnings Distribution

The PPP model transfers some government responsibilities to social capital parties (enterprises) in the form of franchise rights. The government and social capital parties establish a joint community relationship of ' benefit sharing, risk sharing, whole-process cooperation, loss and honor related '. The surplus distribution reflects the cooperation rights and operating results of both government and enterprises, which can effectively reduce the government ' s financial burden and reduce the investment risk of social capital.

2.4. Key Points of Financial Management in Project Handover Stage

When the franchise period expires, the assets will be transferred according to the contract, and the franchise right of the social capital party will be lost. At this stage, the project company needs to distinguish between transferred assets and its own assets. The assets required to meet the basic operating conditions of the project company belong to the scope of transfer, and the assets accumulated through asset management and income belong to their own assets. Own assets do not need to be transferred, but should be allocated to shareholders. After defining the scope of asset transfer, accounting treatment is carried out. The focus of financial management in project transfer stage mainly involves asset transfer and equity transfer.

2.4.1. Transfer of Assets

After the expiration of the contract, the project company shall transfer the project assets to the government (or its designated government investor representative) without compensation. Because the project company has transferred the book value of financial assets and intangible assets through depreciation and amortization during the operation period, it is only necessary to carry out physical transfer at the asset transfer node, focusing on the physical properties of assets.

2.4.2. Equity Transfer

After the expiration of the project operation period, the project company dissolved or survive, depending on the PPP project investment agreement or project articles of association. According to the original contract, after the expiration of the government side of the project company to carry out an equity acquisition, the project company survives, the project company from the original government and social capital joint ownership into only by the government side (or its designated government investors on behalf of the party). On the contrary, the liquidation reorganization or merger processing. The focus is on the risks of additional claims, debts, and taxes that may arise during the transfer process.

3. Problems and Suggestions in Financial Management

3.1. Non-standard Project Fund Management Constraint Mechanism

In practice, PPP financing is responsible for the establishment of PPP companies by the government (or its designated government investor representative) and social capital parties. There are mainly the following problems in fund raising, management and use : First, the minimum capital ratio of the project does not meet the requirements ; second, the capital is not in place in accordance with the prescribed schedule and amount ; third, the project is not implemented on the construction of capital ; fourth, the project capital raised through equity and equity financial instruments exceeds 50 % of the total capital ; fifth, the project loan funds, ' real debt ' funds identified as project capital ; sixth, the capital of investment projects without independent legal entities is not independently accounted for. In this regard, it is recommended to improve the early PPP project bidding management, standardize the PPP investment contract, do top-level design ; second, strictly implement the investment agreement when the project is implemented, improve the reward and punishment mechanism, and improve the project financial management mechanism ; third, the rational allocation of financial departments and accounting personnel, the correct accounting.

3.2. The Government (or the Representative of the Government Investor) Renounces Dividends

Some PPP project representatives of government investors do not participate in dividends, give up the right to dividends, emphasis on social responsibility management. This essentially weakens the financial control of government investors, and the depth of participation in PPP company management, especially financial management, is greatly reduced, which is not conducive to government supervision and the long-term development of PPP companies. In this regard, it is suggested that according to the national policy provisions on PPP projects and the requirements of PPP projects, the government or government investor representatives should be strengthened to fulfill the necessary responsibilities and enjoy the dividend rights according to the shareholding ratio. Do not ignore economic interests because of the emphasis on social public services, give up the rights that should be enjoyed, and eliminate the possibility that the project company may use the option of accounting policies to manipulate financial information for the purpose of earnings management.

3.3. Problems in the Confirmation and Measurement of PPP Project Assets

Interpretation No. 14 clearly states : ' PPP project assets refer to the assets identified in the PPP project contract for the provision of public goods and services '. At the same time, it is clear that ' the social capital party shall not recognize the PPP project assets stipulated in this Interpretation (Note : Interpretation No.14) as its fixed assets '. The PPP project assets are finally classified as intangible assets, financial assets and both. In practice, there are two difficulties.

3.3.1. Asset Identification of PPP Projects

The recognition of PPP project assets has three forms : intangible assets, financial assets and mixed mode. In the mixed mode, the investment consideration corresponding to the user 's payment is recognized as intangible assets, and the investment consideration corresponding to the feasibility subsidy (government gap subsidy) is recognized as financial assets. However, there are no specific operational measures on how to divide it, which easily leads to insufficient basis for the division of investment and inaccurate accounting of intangible assets and financial assets. At the same time, the boundary between PPP project assets and fixed assets is not clearly defined in the interpretation of the criteria. In practice, accounting personnel are included in PPP project assets without distinction on the grounds of interpretation No.14. Regardless of the form of PPP project assets, the essence is to enjoy the right to occupy, use and benefit from the corresponding assets for a certain period of time, but there is no ownership (free transfer upon expiration of the operation period). The first suggestion is to clarify the basis of investment division and formulate division standards to ensure the accuracy of asset accounting under the mixed mode. Secondly, further clarify the boundary between PPP project assets and fixed assets, and consider the ownership relationship, asset definition, future transfer and other factors to clearly classify and calculate assets.

3.3.2. PPP Project Stop Capitalization Time Problem

The determination of the project to reach the predetermined usable state involves both the recognition of income and the recognition and subsequent measurement of assets, which has a great impact on the financial results of the project company. The existing criteria and explanations do not specify the time point to reach the predetermined usable state. In practice, it is usually selected that the completion of the project is qualified for trial operation or the completion of the project is accepted by the government as a predetermined state of availability. However, due to various reasons, the time between the completion of the project and the completion of the project is often separated by the government acceptance. How to judge whether the project has reached the predetermined usable state is controversial, which also causes great difficulties to the financial accounting of the project company. Some PPP projects such as highway projects, rail projects, etc., have been opened for operation, but due to demolition, construction period, technical difficulties and other reasons, some ramps, entrances and exits have been suspended. From the overall analysis, although the completion acceptance (project settlement) has not been completed, it has reached the predetermined usable state (opened to traffic operation). Is this similar situation synchronized with the cessation of capitalization interest ? In practice, benevolent see benevolence, wise see wisdom, with different treatment. In this regard, it is suggested that the first is to further clarify the judgment basis for the project to reach the predetermined usable state ; second, whether to stop the capitalization of interest to further clarify the time point, conditions, eliminate disputes in accounting to ensure that accounting information is true, accurate and comparable.

3.4. Inadequate Implementation of the Financial Budget

The key nodes of PPP project budget are investment budget, financing budget and cost budget. They are the financial management focus of different links in PPP projects. In the financial management of PPP projects, the interests of social capital are excessively reflected, and the social welfare attributes of PPP projects are ignored. In budget management, there are problems such as inadequate budget management and unimplemented budget management. In this regard, it is recommended to ensure that financial accounts clear and reliable, more clear and transparent flow of funds ; second, standardize the use of funds, so that funds in the collection, investment, distribution and other aspects of more rigorous ; the third is to improve the cost management system of PPP company, starting from the construction and operation stage of the project, to carry out scientific and reasonable standardized management of cost,

effectively reduce the construction cost and operation cost over budget ; fourth, the government can consider forcing PPP projects to improve the level of capital and cost management by formulating a performance evaluation and assessment system, eliminating the artificial increase of PPP project asset costs, increasing PPP project operating costs, and increasing government future subsidy expenditures to reduce financial risks. Through the government and enterprises to avoid risks scientifically and reduce costs reasonably, the government and social capital will finally achieve a win-win situation.

3.5. The Problem of Interest Transfer in Related Party Transactions

In terms of investment management and cost control, related party transactions may have interest transmission. After the establishment of PPP project company, how to standardize the procurement of various construction materials, engineering materials and labor export in the process of construction and operation is also a problem faced by the project company. Most of the social capital parties are group enterprises or enterprise consortia, with diversified and integrated business, and wide and deep business links. Whether the materials needed for the construction and operation of PPP projects can be purchased directly from the shareholders or related parties of the PPP project company, how to control the purchase price, prevent the transfer of interests, and how to carry out effective settlement, etc. The government has not issued relevant normative procurement documents. In practice, they act in their own ways. If related procurement, there is the possibility of monopoly and profit transfer, is not conducive to market fairness. In this regard, it is suggested that detailed rules should be issued from the government level to standardize the procurement process of PPP project construction, operation materials and labor export. According to the principles of fairness, justice and openness, dark box operation should be prevented and bidding mechanism should be improved, so as to effectively control the investment cost and operation cost of PPP project.

3.6. 'Double High ' in Financing Management

In terms of financing management, inappropriate financing will increase the asset cost of PPP projects and increase government subsidies during the operation period. The PPP model has both financing and investment functions, so a good capital structure can provide guidance for project financing, and help reduce financing costs and financing risks. It is also the basis for the smooth development of enterprises. Therefore, it is suggested that PPP project companies strengthen capital management, formulate reasonable capital plans, payment processes, establish a good financing management process, improve the efficiency of capital use, and prevent the phenomenon of ' double high deposit and loan '.

3.7. The Rights and Obligations of the Liquidation Withdrawal Mechanism are Not Clear

When the operation of PPP project expires, the articles of association and agreement need to transfer the real estate of PPP project in time. However, the possible risks in the transfer process are not clearly defined. Regardless of the time value of the liquidation, without the support of accounting standards and tax policies related to PPP projects, it is difficult to ensure that there is no risk when social investors exit. Most PPP project agreements only require the transfer of assets to the government or its designated agency at the end of the operation period. The risks of additional creditor 's rights, debts, taxes and other risks that may arise during the transfer process are not clearly defined, which brings potential risks to the transfer management. First, the government should standardize the top-level design before the implementation of PPP projects. Second, the introduction of relevant financial, risk, tax and other management measures to regulate.

4. Conclusion

PPP model originated in foreign countries, has developed rapidly in recent years. The PPP model fully and effectively utilizes the huge potential of social idle capital, promotes the high-quality development of China 's public service infrastructure construction, and makes people 's lives better. The introduction of Interpretation No. 14 has laid a solid foundation for PPP financial management. Financial management plays a vital role in the whole life cycle of PPP mode. The financial management objective under PPP mode is compatible with and different from general enterprises. Therefore, in practical application, one is to solve the problems encountered in financial management under PPP mode in time ; second, we should constantly sum up experience, gradually improve the PPP financial management model, improve the efficiency of financial management, promote the financial management of PPP projects to a replicable and replicable financial management model, and encourage the healthy and sustainable development of PPP business.

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