

Thoughts Triggered by "PPP Major Changes"*

Lingling Jiang

School of Accounting
Harbin University of Commerce
Harbin, China

Muyao Li

School of Accounting
Harbin University of Commerce
Harbin, China

Abstract—Under the guidance of the “six stability” policies, the stimulus infrastructure is used to hedge the economic downturn, and the infrastructure is used to supplement the shortcomings. PPP has become an important means to promote economic development. The government accounting standards clarify that PPP long-term government expenditure is no longer a government debt policy. It has become another reassurance to promote the PPP specification and healthy development. How to give full play to the role of PPP under the guidance of policies will inevitably become a hot issue in society.

Keywords—PPP; government debt; debt risk

I. INTRODUCTION

On November 15, 2018, the Ministry of Finance formulated the “Government Accounting Standards No. 8 – Liabilities”, which was implemented on January 1, 2019. According to this standard, the future expenditure responsibility of the PPP project of government and social capital cooperation is no longer belonging to government debt; it should be disclosed as contingent liabilities. This major change in PPP means that the government's medium and long-term payment responsibility is no longer the fiscal 10% red line supervision scope, which gives a green light for PPP to further enlarge the scale. It is also October 2018. On the 31st, the Politburo meeting further emphasized the “six stability” and made major efforts to complement the shortcomings of infrastructure.

II. THE THREE STAGES OF THE DEVELOPMENT OF PPP MODE IN CHINA

A. *Selecting a Template*

The first phase is from 2014 to 2017. In September 2014, China began to promote the large-scale PPP model. Among just two years, more than 10,000 warehousing projects and nearly 1,000 in the implementation phase were super-speed development. China has become the world's largest and most influential PPP market. By the end of September 2017, China has entered the development stage of 6778 PPP projects with a total investment of more than 10 trillion. By the second quarter of 2017, PPP projects burst out and the outbreak hit a new high in the quarter.

B. *Maintaining the Integrity of the Specifications*

The second phase is from October 2017 to August 2018. Under the macro policy of central de-leveraging, in the second half of 2017, the policy of strictly blocking the back door of local debt financing began to emerge, and the central government showed a strict situation for local debt restrictions. According to preliminary statistics, within one year, there are as many supporting documents related to the financing of PPP specifications issued by the Ministry of Finance, the State-owned Assets Supervision and Administration Commission, the National Development and Reform Commission and other departments. From the contents of these documents, the situation of gradual upgrading is presented. The local government financing guarantees are strictly checked to clean up the PPP warehousing project; the No. 92 document issued by the Ministry of Finance in November 2017 is generally considered by the market to be the most stringent new regulation and is considered to be a turning point in the PPP specification. The document requires that the time limit for the completion of the project clearing is March 31, 2018. After the clean-up period, more than 2,000 projects have been cleared out of the PPP project library. Xinjiang, Inner Mongolia and Yunnan have become the hardest areas to capture for involving more than 3 trillion investments. The PPP project that entered into a stage of normative development in 2018 is inevitably showing an overall decline.

III. PPP PROJECT AND GOVERNMENT DEBT

A. *The Definition of Government Expenditure*

Responsibility and Government Debt in the PPP Project

The PPP project is an expenditure agreement for the future provision of public services by the project company. The regulated PPP should not be a government debt, because the social capital purchased at the time of signing the PPP contract did not provide services at that time. Liabilities are an accounting concept and are concepts related to asset formation. In the new government accounting standards, there has been a new change in the definition of government assets, which increases the conditions for confirming the service potential of public goods. That is, if a public asset is not provided with service potential, it cannot be recognized as an asset. In theory, PPP projects need to provide public infrastructure and public services, and if the public infrastructure does not meet the asset recognition conditions,

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the liabilities cannot be confirmed. Liabilities are a current obligation based on past economic events. Whether a PPP project can become a liability depends on whether it forms a current obligation. Performance as the basis for judging the responsibility of government expenditure is the precondition for the future fiscal expenditure quota. The confirmation of future fiscal expenditure liability applies to the civil and commercial law, because it needs to be agreed in the PPP contract; the fixed return and the real debt in the contract cannot be reflected in the contract. If improperly agreed, if there is a relevant improper agreement, the government's implicit debt will be formed.

B. Standardized PPP Projects Ease Government Debt Pressure

In the process of infrastructure marketization, the government will have to continue to invest a certain amount of infrastructure funds. For the government, the investment in the PPP project is smaller than the investment in the traditional way. The difference between the two is the government's revenue from adopting the PPP approach.

1) Reducing project cost and government expenditure:

In the initial stage, the private sector and private enterprises participate in the identification of projects, study of feasibility. In the initial stage, the private sector and private enterprises participate in the project identification, feasibility study, facilities and financing project construction process, which ensures the technical and economic feasibility of the project, shortens the preliminary work cycle, and makes the project cost reduced. The PPP model can only begin to generate revenue when the project has been completed and approved by the government. Therefore, the PPP model is conducive to improving efficiency and reducing engineering costs, and can eliminate project completion risks and capital risks. Research shows that compared with the traditional financing model, the PPP project saves the government department an average of 17% of the cost, and the construction period can be completed on time.

2) Convert government functions: The government can get out of the heavy business from the provider of infrastructure public services in the past, to a regulatory role, to ensure quality, and also to reduce government pressure on the budget.

3) Diversification of investment entities: The use of the private sector to provide assets and services can provide more funding and skills to government departments and promote investment and financing system reform. At the same time, private sector participation projects can promote innovation in project design, construction, facility management processes, improve efficiency and disseminate best management concepts and experiences.

4) Providing high-quality service: Government departments and the private sector can learn from each other's strengths and make full use of the advantages of the government's public institutions and private institutions to

make up for the shortcomings of the other side. Both parties can form a mutually beneficial long-term goal and provide high quality services to the public at the most effective cost. Integrating the project participants into a strategic alliance will play a key role in coordinating the different interests of the parties.

5) Reasonable risk allocation: Different from the BOT and other modes, PPP can realize risk allocation in the early stage of the project. And in light of that the government shares part of the risk, the risk distribution is more reasonable, and the risks of contractors and investors are reduced, which reduces the difficulty of financing and improves the possibility of success project financing. The government also possesses power of control to some extent while sharing risks.

6) Wide range of applications: This model breaks through the limitations of introducing private companies to participate in public infrastructure project organizations, it can be applied to various municipal utilities such as urban heating and roads, railways, airports, hospitals, and schools.

C. Government Stealth Debt Risk Brought by Non-standard PPP Projects

- PPP projects lack fiscal transparency. Although the PPP model can increase the scope of fiscal funds in public goods and public service provision and it can use less financial funds to incite the supply of larger public goods and public services, but it should be noted that in the PPP mode, the government is a partner who is responsible for debts. Once the public-private partnership has experienced a financial crisis or even bankruptcy, the government will ultimately be the subject of debt repayment, and the debt will be passed on to the government. In addition, PPP projects usually are long-term and variable in project operation. In other words, the fees paid under the PPP model are subject to factors such as demand, cost, and exchange rate. These factors make it difficult for the government to accurately estimate the cost of PPP projects and its operating income.
- Two arguments were not carried out as required. Whether the government has the ability to purchase these projects and pay the risk of insufficient ability to pay in the process of purchasing funds will depend entirely on the financial sustainability report. The accuracy, authenticity and fairness of the financial sustainability report will directly affect the government's debt repayment risk. However, the author found that some professional intermediaries who are chasing for the benefit of consideration did not truly reflect the local government's financial solvency; they just care about "argumentation" itself, so that some serious "insolvent" local government also successfully passed the financial capacity argument. Besides, the financial department is not restricted by the management system. According to the "Guidelines for the Financial Capacity of Government and Social Capital Cooperation

Projects”, the financial intermediation agency’s financial sustainability report issued by the professional intermediaries is reviewed and checked, so that the review is in the form. Due to the lack of risk control links in the process of demonstration, review of PPP projects and the urgent need for the government to build demand through PPP projects, it poses hidden dangers for regional debts arising from government debt.

- Local financial capacity exceeds 10%. The 10% expenditure ratio is called the “red line”. In August 2017, Shi Yaobin, the deputy minister of finance, made a speech in the symposium on further promoting the development of PPP norms, and clearly proposed to focus on the “four lines” of PPP work. The first is to strictly control the “red line”. It is necessary to strengthen the financial constraints to demonstrate the rigid constraint of 10% “red line”, unify the implementation of the caliber, and strengthen information disclosure. All projects must disclose the financial affordability report and related data in a timely manner in the PPP integrated information platform. If it is not disclosed as required, it must be cleared from the project library. All localities should establish a statistical monitoring system for financial expenditure responsibility of PPP projects. The central and provincial finances should conduct risk warnings for areas that are close to or exceed the 10% red line. Despite this, there are still some areas that “cross the thunder pool”. Experts pointed out that some local governments also use implicit means in order to avoid the “red line” of the 10% limit. For example, some implement government spending responsibilities through channels other than the general public budget; some projects self-disassemble, and part of the project expenditure is completed by traditional government procurement, while the rest is operated in PPP mode, thereby reducing PPP project expenditure responsibility, in order to pass the financial capacity of 10% limit “red line.” “Taking the feasibility gap subsidy PPP project as an example, some places adopt a method of increasing the proportion of user fees and reduce the amount of feasibility gap subsidies to achieve the purpose of demonstrating through financial affordability. However, during the project implementation phase, feasibility and the amount of the gap subsidy will be much higher than the amount reflected in the financial affordability report, which will bring more uncertain risks to the project implementation.” In some places, in the actual operation of PPP, the future financial expenditure situation is too optimistic or insufficient. This will result in the inability of the government to pay or pay insufficient funds in the future, thus forming local debt.
- The future cash flow of the investment in the PPP project is insufficient. If a project does not drive the growth of urban financial resources in future

operations, and there is not enough cash flow to cover the cost of investment and construction operations, the government’s future payment will be affected, resulting in an increase in local debt. The PPP model itself is a new form of economic cooperation, a major reform of government investment and financial management, and is suitable for the investment and management of public welfare infrastructure. In the context of China’s economic development from the rapid growth of the past to the steady growth of the medium and high speed, the use of PPP and other methods can play an important role in bridging the government’s overall social resources and speeding up the construction of public service infrastructure. However, since PPP is a relatively new financing model, the current operation of PPP is still not clear, and various regulations are not in place. Therefore, the government’s disguised debt behavior is more concealed under the cover of PPP. If it is not strictly controlled and audited, the degree of harm and risk brought by its blind expansion to local finance will increase significantly. Liu Yi said that if the PPP project is based on fixed income and is regularly repurchased by the government, it will form a rigid expenditure for the government’s future years. Similar to the debt due, it will have a greater impact on government spending in the next few years. In addition, the uncontrolled and constrained social capital financing ability will stimulate the government’s new round of investment enthusiasm, and the stimulus to the economy will also appear disordered, which will affect the rational allocation of social resources.

IV. REASONABLE PROMOTION OF SAFEGUARD MEASURES FOR PPP PROJECTS

A. Preventing and Controlling Government Debt Risks

Because the PPP project reflects the contractual relationship between the government and the private sector, although the government can share the debt risk with the private sector under the PPP model, once the private sector has a financial crisis or bankruptcy, the government needs to “cover” its debt. Therefore, the government needs to take measures to prevent and control its debt risk. The specific measures include the following aspects: First, the government must conduct a strict review of the qualifications of the co-operative private sector to ensure that the private sector has sufficient credit capacity; second, it requires cooperation. The private sector provides a certain percentage of operational margins as a risk prevention and control fund. Once the private sector has a financial crisis, the government can use the risk margin submitted by the private sector to reduce the government debt risk; once again, a limited liability company is established between the government and the private sector. The company is responsible for the implementation and operation of the PPP project, and the government bears limited liability in proportion to the capital contribution to mitigate the government debt risk. Fourth, the local government should proceed from the economic

development of the Party Central Committee, borrow debts within the financial capacity and debt limits, and strictly limit the expenditure responsibility to no more than 10% of the general public budget expenditure.

B. Strengthening Supervision and Preventing Monopoly

Incorporate the two payment models of PPP project government payment and feasibility gap subsidy into government debt management, and establish a debt overrun warning and project life cycle real-time monitoring system. The financial department should strictly review the PPP project review point, proceed from the overall situation of financial fund payment security and stability, and reject the PPP project that does not meet the financial affordability.

Considering that most of our PPP projects will operate in the manner of government transfer of concessions, it is easy to generate monopoly if the transfer of concessions is not effectively regulated. Therefore, preventing monopoly is also a reality that must be considered when implementing a PPP project. Therefore, the government must strengthen the supervision of the operation of the PPP project, refer to the practical experience of PPP projects at home and abroad, comprehensively evaluate the PPP project in China, and formulate the project charging interval. At the same time, we must strengthen third-party supervision. Because the PPP project involves the interests of the government and the private sector, it is difficult to ensure that the price is fair. It is necessary to establish or introduce a third-party monitoring mechanism to strengthen the supervision of the PPP project.

Do your best and control the total amount. Local governments with insufficient financial payment capacity shall make classified treatment according to the progress of PPP projects. For projects that are still in the preliminary work stage such as land acquisition, survey, planning and design, the construction shall be suspended; for projects that are already under construction, according to local financial constraints or Reduce total investment and control government debt risk to the maximum extent possible.

C. Strengthening System Construction

Although China has begun piloting PPP projects in some provinces, it still lacks the necessary institutional norms. Therefore, the government should issue corresponding guidelines and regulations as soon as possible to provide detailed guidance and guidance on the PPP project's policy objectives, private sector qualifications, PPP project bidding, PPP project implementation and operations and maintenance. In the long run, the legislation of the PPP project should be strengthened, the legal system of the PPP project should be strengthened, the PPP project should be positioned legally, and legal support should be provided for the implementation of the PPP project.

D. Strengthening the Institutional Settings

A clearly positioned PPP project organization will undoubtedly greatly advance the specification and smooth operation of the PPP projects. For example, the UK which currently has the most successful implementation of the PPP

project has set up an infrastructure bureau under its Ministry of Finance in 2011; the PPP project committee and the PPP project office in Canada; and the bot center in the Philippines, which is responsible for the PPP project. Considering China's current and future development trends, the PPP project will undoubtedly be widely promoted in China. Therefore, the PPP project management organization should be set up under the Ministry of Finance, and the PPP project management organization should be set up at the local level.

V. CONCLUSION

This paper briefly analyzes and discusses the PPP model on the effectiveness of local government debt resolution and the related concepts of PPP mode. As a new way to resolve the problem of local government debt in China, we need to supplement and improve it in the process of continuous practice and application. Our government departments and research scholars must actively carry out the application status of PPP mode and advanced foreign concepts. Mastering and analyzing, in the process of learning and supplementing, the PPP model can better serve the construction of public infrastructure and services in China.

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