

An example of creative accounting in public sector: The private financing of infrastructures in Spain[☆]

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Abstract

This paper analyses some proposals for private financing of public works having emerged in Spain in recent years. We show that all the new financing methods assessed are incorrectly named as “private”, for the payments are finally made by the Government by means of its budgetary resources. A deferral of accounting and budgetary recognition of these transactions, together with a false disclosure in financial statements of the debt connected with the projects, are the main reporting consequences of the new funding methods. In short, it is a clear example of “creative accounting” with the aim of meeting the convergence criteria imposed by the European Union.

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1. Introduction

Most of infrastructures have been financed in Spain through the public budget until the middle of the nineties. Concessions and private financing have been scarcely used. However, private financing of new infrastructures (private finance initiative, PFI, or more recently named also as public–private partnership, PPP) is growing in recent years. These are the main reasons for reducing the use of budgetary resources:

- European Monetary Union (EMU) requirements concerning government deficit and debt limit the amounts that public entities can borrow to finance capital assets. According to the 1996 Stability and Growth Agreement, European Governments must reach a balanced budget in 2001, namely, a zero deficit. This target must be achieved in spite of the social pressure for more and best public services and benefits, making almost impossible for the public sector to reduce current expenses and thus generate savings.
- Important investment funds are searching in the financial markets for safe and steady investments.
- Rigidity of traditional Public Administration brings about high management inefficiencies.
- Financial earnings are normally improved by companies' flexibility and management skills. Investment priorities, as well as verification of public works profitability and feasibility can be enhanced through the private business requirements if enough financial rate of return is achieved.

Furthermore, the infrastructures still remain in Spain quite below the most advanced countries' equipments in the European Union (EU). It is generally known that endowment for infrastructures is one of the most important conditions for economic growth in any country. For example, the 2005–2020 Infrastructures and Transports Strategic Plan of the Spanish Ministry of Development highlights that, according to recent studies, the cumulative marginal productivity of the public capital is almost of 1.5, i.e., an increase of €1 in public capital investment leads, in the long term, to a GDP increase of almost €1.5.

All the arguments set out here lead to the conclusion that lots of imagination are required when searching for new methods to fund public investments. On the one hand, a high quality in public services must be accomplished, and on the other hand, a rigid budgetary discipline has to be achieved. Accordingly, new funding methods have appeared in which private partners are involved in the development of public investment projects (PFI).

Our main hypothesis is that many countries have used PFIs to defer payment and this way control their deficits and debt without cutting investments in infrastructures and public services. Lack of a clear accounting standards on how to report PFIs has allowed governments to do it.

The following pages analyse some proposals for private financing of public works having emerged in Spain in recent years. After assessing all the new financing methods, we find that they are incorrectly named as “private”, for the payments are finally made by the Government by means of its budgetary resources. A deferral of accounting and budgetary recognition of these transactions and a wrong disclosure in financial statements of the debt connected with the projects are the main reporting consequences of the new funding methods. In short, it is

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