



AAPP 109 - ACT ACCOUNTING POLICY PAPER ON AASB 1059 - SERVICE CONCESSION ARRANGEMENTS: GRANTORS

Chief Minister, Treasury and Economic
Development Directorate

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1. INTRODUCTION

1.1 APPLICATION

1.1.1 Purpose

This ACT Accounting Policy addresses grantors accounting for service concession arrangements under AASB 1059 *Service Concession Arrangements: Grantors*. It replaces the ACT Accounting Policy: *Public Private Partnerships Financed by the Operator with the Assets being Territory Assets at the End of the Arrangement*. This policy provides general guidance to aid ACT Government agencies in their capacity as public sector grantors on the appropriate recognition, measurement and disclosure of revenues, expenses, assets and liabilities relevant to a service concession arrangement.

This policy is to be read in conjunction with the following:

- > AASB 1059 *Service Concession Arrangements: Grantors*;
- > Interpretation 12 *Service Concession Arrangements*; and
- > Interpretation 129 *Service Concession Arrangements: Disclosure*.

1.1.2 Relationship to International Financial Reporting Standards

ACT Accounting Policies are to be read in conjunction with applicable Australian Accounting Standards. Australian Accounting Standards incorporate International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board, with the addition of paragraphs on the applicability of each standard in the Australian environment. In the case of grantor accounting for service concession arrangements there is no IFRS equivalent. AASB 1059 is based on the International Public Sector Accounting Standard IPSAS 32 *Service Concession Arrangement: Grantor* issued by the International Public Sector Accounting Standards Board (IPSASB). This policy assists agencies in accounting for a service concession arrangement by a grantor.

There is, however, no intention that the ACT Accounting Policies will replicate the Accounting Standards. Consequently, agencies should ensure that they have a thorough understanding of the content of the standards before reading and applying relevant ACT Accounting Policies.

1.1.3 Application Date

AASB 1059 as well as this ACT Accounting Policy applies to the reporting periods beginning on or after 1 January 2020. For agencies whose financial year ends on 30 June the standard (and this policy) is applicable to financial years ending on or after 30 June 2021. For agencies whose financial year ends on 31 December the Standard and this policy is applicable to financial years ending on or after 31 December 2020.

1.1.4 Agencies Covered by this Policy

This policy applies to ACT Government Agencies, that is directorates and territory authorities.

1.1.5 Budgetary Implications

This policy principally seeks to guide agencies on the recognition and measurement of revenues, expenses, assets and liabilities relevant to a service concession arrangement.

The Budget implications in relation to funding requirements for a service concession arrangement will vary significantly given the differences that can exist between these types of arrangements. For example, in some service concession arrangements funding may not be required for an arrangement where the third-party users of a service concession asset pay the operator directly for the use of that service concession asset (see Section 3.2 and Section 3.2.2 below). However, significant funding may be required by an agency where the Agency is required to pay the operator directly for constructing, operating and maintaining the service concession asset. Essentially, where an agency requires funding as part of the budget process relating to a service concession asset, they should request capital injection funding, and funding related to operational and maintenance payments should be controlled recurrent payment.

Where there is an agreement as part of the budget process that a service concession arrangement will proceed and be funded in the current budget year and/or across the forward estimates, agencies must ensure the relevant entries are included in GBMS. This will involve taking up a service concession asset and related service concession liability, revenue and expenses across all relevant years.

1.1.6 Contact

If you have any questions regarding this Policy, please contact the Financial Reporting and Framework (FRF) Branch to provide further clarification. Contact details are listed on the website: <https://apps.treasury.act.gov.au/accounting/>.

1.1.7 Application of Policy

Requirements of this policy are included in **bold** text, with un-bolded text being background information/commentary.

2. SCOPE OF AASB 1059

The standard applies to service concession arrangements which are arrangements that involve an operator (generally a private sector entity) providing public services related to a service concession asset on behalf of a grantor (generally a public sector agency) for a specified period of time and managing at least some of those services at their own discretion (see AASB 1059 para 2).

An arrangement within the scope of this Standard typically involves an operator constructing the assets used to provide the public service. Once constructed the operator then operates and maintains the assets for a specified period. Such arrangements are often described as build-operate-transfer or rehabilitate-operate-transfer service concession arrangements or public-private partnerships (PPPs). However, the scope of AASB 1059 is broad and can apply to arrangements where no assets are constructed by the operator, and instead an existing asset (including an upgrade to an existing asset) of the grantor or the operator is used. In addition, even arrangements between two public sector agencies can be captured by the standard.

Agencies should review their existing arrangements and any forthcoming/proposed arrangements to identify whether they will be impacted by AASB 1059, and assess the potential financial statement impacts. This would include an assessment of whether agencies control the underlying assets related to long-term leasing, outsourcing, service and privatisation arrangements. For example:

- if the agency does not retain control of an existing asset under such an arrangement, the agency considers whether to derecognise the asset as a sale or privatisation; or
- if the agency retains control of an existing asset and gives the operator the right to use the asset, or the operator controls an asset and gives the agency the right to use the asset, the agency considers whether to recognise a lease in relation to the asset as lessor or lessee respectively.

A detail accounting position paper should be prepared for discussion and review by executive management and the agency's audit committee. The position paper should include a detailed analysis on whether an arrangement falls within the scope of the standard as well as the accounting treatment adopted by the agency as a result of their analysis. The position paper should be approved by the agency's audit committee and then provided to the ACT Audit-Office to allow them time to review the paper. The approved paper should also be included as part of the audit workpapers. This is an important process given these types of arrangements are rarely simple or immaterial, meaning that it is critical for them to be appropriately reviewed and approved within an agency.

2.1 SERVICE CONCESSION ARRANGEMENTS

The definition of a service concession arrangement is defined as a contract effective in the reporting period between a grantor and an operator in which:

- (a) The operator has a right of access to the service concession asset(s) to provide public services on behalf of the grantor for a specified period of time;
- (b) The operator is responsible for at least some of the management of the public services provided through the asset and does not merely act as an agent on behalf of the grantor; and
- (c) The operator is compensated for its services over the period of the service concession arrangement (AASB 1059 Appendix A).

A grantor is the ACT Government agency that grants the right to access the service concession asset to the operator. An operator is the entity that has a right of access to the service concession asset to provide public services (AASB 1059 Appendix A).

2.2 CRITERIA TO DETERMINE WHETHER AN ASSET SHOULD BE RECOGNISED AS A SERVICE CONCESSION ASSET

In determining whether an arrangement is a service concession arrangement under AASB 1059 (see Criteria 1, 2 and 3) and that a service concession asset is controlled by the grantor and therefore needs to be recognised (Criteria 4 and 5), an agency needs to determine whether the following 5 criteria are met:

Criterion 1 - There is an operator providing public services related to a service concession asset on behalf of a grantor (as per AASB 1059 para 2(a)). To assist in determining this,

agencies should follow the following steps (this criterion is detailed further in Section 2.2.1 below);

- a. Identify the asset and the services provided with the asset;
- b. Identify whether the services provided are primary or ancillary;
- c. Assess whether the primary service is a public or non-public service; and
- d. If the asset, on a stand-alone basis, is providing non-public services, consider whether the asset is a 'secondary' asset.

Criterion 2 - The operator is managing at least some of those public services under its own discretion, rather than at the direction of the grantor (as per AASB 1058 para 2(b)). This criterion is detailed further in Section 2.2.2 below.

Criterion 3 - The asset must be a service concession asset (as per AASB 1059 para 2(a) and Appendix A). This criterion is detailed further in Section 2.2.3 below.

Criterion 4 - The grantor controls or regulates (as per AASB1059 para 5(a)):

- the services the operator must provide with the service concession asset;
- to whom the services must be provide; and
- price;

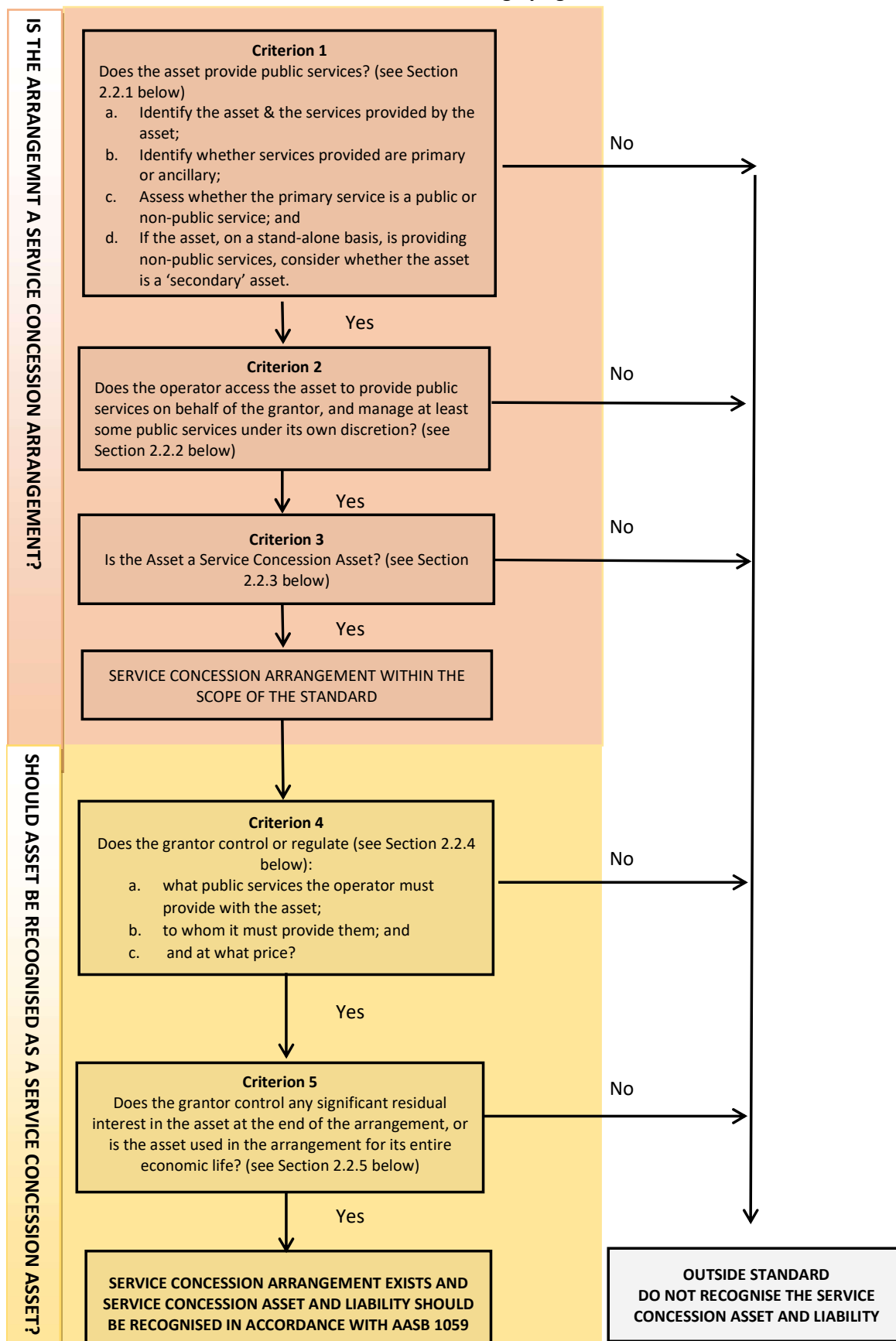
This criterion is detailed further in Section 2.2.4 below.

Criterion 5 - The grantor controls, through ownership or beneficial entitlement or otherwise, any significant residual interest in the asset at the end of the term of the arrangement (as per AASB 1059 para 5 (b)). This criterion is detailed further in Section 2.2.5 below.

An asset that is constructed or developed as part of a service concession arrangement must also meet the recognition criteria in AASB 116 para 7 or AASB 138 para 21, in addition to meeting the recognition requirements in AASB 1059, before it can be recognised.

Where the grantor must accept an asset constructed or developed to meet the specifications of a service concession arrangement, the costs shall be recognised as progress is made towards completion of the asset. That is, a service concession asset is not recognised at the end of construction but is recognised progressively as the asset is being constructed.

CHART 1 : A Decision Tree to Guide Decision making by Agencies



2.2.1 Criterion 1 – Ascertain Whether the Asset(s) Provides a Public Service

AASB 1059 does not provide a definition of 'public services' and assessing whether the asset(s) provide(s) public services under the arrangement is a matter of judgement, taking into account the nature and relative significance of each component and the services provided. However, AASB 1059 Appendix B para B6-B9 does provide guidance on assessing the public services provided by an asset.

An agency should apply the steps below to assist in their assessment of whether the asset provides a public service:

1a. Identify the asset and the services provided by the asset – Agencies should identify any asset that can be physically separable, capable of being operated independently, and meets the definition of a cash-generating unit as defined in AASB 136 *Impairment of Assets*.

The identification of assets needs to be made on an asset-by-asset basis as a number of assets can be involved in a service concession arrangement. Once assets are identified, an agency will need to assess each asset to determine whether it is a primary or secondary asset (see Criterion 1d below) and whether the asset is a service concession asset (see Criterion 3 below in Section 2.2.3). Each asset may also have different useful lives. In addition, once an asset has been identified, an agency must assess the services that are provided by the asset. In some cases it will be quite easy to identify the services provided by the asset particularly where the asset provides a single service. However, in other cases it will be more difficult to identify the services, as an asset can provide multiple services.

1b. Identify whether the services provided are primary (significant/related) or ancillary (insignificant/unrelated) – It is only the primary service(s) provided as part of the service concession arrangement that is assessed under AASB 1059 to determine whether it is a 'Public Service(s)'. Ancillary services are considered to be insignificant/unrelated to the arrangement as a whole and as such do not need to be assessed in determining whether they are a 'Public Service(s)'. In determining whether a service(s) is a primary or ancillary service(s) will depend on the service concession asset being examined and the circumstances of the arrangement.

In determining whether a service is significant and therefore a primary service is a matter of judgement. The following factors can be used by agencies when determining whether a service is significant:

- The amount of the asset that is used to provide the service. For example, in relation to a courthouse, an agency could look at the number of square meters each service uses in that courthouse;
- The amount that is paid to the operator for a service compared to other services provided as part of the service concession arrangement. For example, in relation to a courthouse, the operator might get paid 95% to provide legal/court services and 5% to provide administrative services; and
- The amount of resources consumed by the service when compared to other services provided in conjunction with the service concession arrangement. For example, in relation to a courthouse, an agency could look at the number of staff employed or the total hours of staff time to carry out each of the services (ie legal/court services as opposed to administrative services) provided in conjunction with the service concession arrangement.

It is important to assess each service in light of the particular arrangement. This is because a primary service for one service concession arrangement could be an ancillary service for another service concession arrangement. For example, asset management services are likely to be an ancillary service for a hospital or a courthouse but may well be a primary service for Light Rail Infrastructure. Services that would generally be considered ancillary services in most service concession arrangement are as follows:

- Help Desk Services;
- Utility Management Services;
- Cleaning Services;
- Mail Room Services;
- Waste Management;
- Landscape Maintenance;
- Pest Control;
- Security Services; and
- Audio Visual Support Services.

It is important to note however, that agencies must undertake an assessment to ensure that a particular service is an ancillary service.

Example 1 – Primary vs Ancillary Services

There is a service concession arrangement involving the operator constructing a public hospital building that includes operating theatres, paediatric rooms, an intensive care unit, emergency room, birthing suites etc that provide health/medical services. In addition, the public hospital building also has retail shops including several cafeterias, a pharmacy and a florist which provide 'other associate services'. These 'other associated services' would generally be considered insignificant and unrelated to the primary services delivered by the hospital being the Health/Medical services. As such, these other associated services would be considered ancillary services.

1c. Assess whether the primary service is a public or non-public service – Once the primary service(s) is identified, agencies must then determine whether or not the primary service(s) is a 'public service'. The standard provides guidance (AASB 1059 para B6 to B9) as to what is a 'public service'.

Based on the standard guidance, public services are considered to be:

- Services that are necessary or essential to the public, which includes subsets of the public; and
- Services that are generally expected to be provided by the public sector in accordance with ACT Government policy.

Examples would include:

- Health Services;
- Public Transportation Services;
- Education Services; and
- Justice Services.

1d. If the asset, on a stand-alone basis, is providing non-public services, consider whether the asset is a 'secondary' asset – Where a public service is provided through a primary asset and there is a complementary secondary asset, the secondary asset would be providing a public service. Secondary assets are therefore separate assets in their own right and as such should be distinguished from components of a primary asset (see Criterion 1a above). AASB 1059 para B7 provides two examples below, one of a situation where a secondary asset would be deemed to be providing a public service and one situation where it would not be deemed to provide a public service.

Example 2 – Where a Secondary Asset is considered part of a service concession arrangement

There is a service concession arrangement involving the operator constructing a hospital that largely provides a public service (ie health services to the community) and as part of the arrangement the operator also constructs a hospital car park. In this situation the hospital would be the primary asset and the hospital car park would be considered a secondary asset as part of the hospital service concession arrangement. Although the car park may provide limited ancillary services this does not in this case affect the assessment that the car park (along with the hospital) is used to provide public services.

Example 3 – Where a Secondary Asset is Not considered part of a service concession arrangement

If the hospital car park is not constructed as part of the hospital service concession arrangement, that is, after the construction of the hospital has occurred or the car park is constructed by a different party to the arrangement and the car park is largely of a commercial nature (eg car parking is available to the general public, including hospital patrons), the car park would be regarded as an asset that does not provide public services, and therefore outside the scope of AASB 1059.

2.2.2 Criterion 2 - The operator manages at least some of those public services under its own discretion, rather than at the direction of the grantor.

For a service concession arrangement to exist, an operator must be responsible for managing at least some of the public services provided through a service concession asset, and not act merely as an agent on behalf of the grantor through an outsourcing arrangement (see AASB 1059 para B10).

So, after it is determined whether an asset is providing a public service, it must then be ascertained whether the operator is managing 'at least some' of those public services under its own 'discretion'. In order for an operator to have at least some discretion over the primary services it provides as part of the service concession arrangement it must have a considerable ability to decide when and how these services are performed. Therefore, agencies will need to examine whether there are any impediments to the operator's decision making around the services being performed. Agencies can assess this by looking at whether there are regulatory requirements that would prevent the operator from making a decision or where the grantor has to approve decisions made by the operator in relation to primary services. Where this is the case the operator probably does not have discretion over the primary services.

In order to be in scope of this standard the operator cannot just merely be acting as an agent on behalf of the grantor through an outsourcing arrangement. The standard provides examples at AASB 1059 para IG3 to IG5 and para IG8 and IG9 as well as AASB 1059 para B10, which are outlined below.

Example 4 - The Operator does not have discretion over Public Services

There is a service concession arrangement where a school provides public services (ie education services) that are necessary or essential to the general public. The education services provided by the school are accessible to the public, even if it is a subset of the community that uses the services. In this service concession arrangement, the operator constructs a school and is responsible for providing cleaning and security services for the school. The grantor is responsible for determining how many staff are required, and for also organising classes, teachers and administrative staff, as well as maintenance of the school facilities.

The standard suggests that this arrangement is not a service concession arrangement as the operator does not access the school to provide public services. Instead, it accesses the school to provide non-public services (ie the provision of cleaning and security services). As such, the operator does not have considerable ability to decide when and how the public services are provided by the school (given cleaning and security services do not constitute public services).

Example 5 - The Operator has some discretion over Public Services

The details of the service concession arrangement outlined in Example 4 above apply in this example except that the operator is responsible for certain operational services, in determining how many staff are required and organising classes, teachers and administrative staff. The staff are provided by the grantor. The operator is also responsible for maintenance of the school facilities by providing upgrades and maintaining the school to a specified condition. The operator has discretion as to when and how it carries out these responsibilities.

The standard provides that this arrangement is a service concession arrangement as the operator accesses the school to provide public services and has at least some 'discretion' over the management of school services, given it determines how many staff are required as well as organising classes, teachers and administrative staff. The operator fulfils this management responsibility through its significant operational and maintenance responsibilities, even though the staff are provided by the grantor.

Example 6 – Not Acting as an Agent

If after constructing a hospital the operator needs to provide more managerial type services (ie providing scheduling of staff and resources, even if those staff are provided by the grantor) the operator is likely to be responsible for some of the management of the hospital public services, and not acting like an agent of the grantor.

As such, this arrangement would be a service concession arrangement.

Example 7 - Acting as an Agent (Outsourcing)

In contrast, if an operator in an arrangement to construct and operate a hospital provides services like cleaning and security services for the hospital after its construction, the arrangement would generally be considered not to be a service concession arrangement. This is because the cleaning and security services would not be considered a public service and as such the operator has discretion over non-public services (ancillary services) but does not have any discretion over public services.

2.2.3 Criterion 3 – the Asset must be a Service Concession Asset.

In order for there to be a service concession arrangement, the asset identified in Criteria 1a must be a service concession asset. A service concession asset is defined in AASB 1059 Appendix A as:

An asset (other than goodwill) to which the operator has the right of access to provide public services on behalf of the grantor in a service concession arrangement that:

- (a) the operator constructs, develops, upgrades or replaces major components, or acquires from a third party or is an existing asset of the operator; or*
- (b) is an existing asset of the grantor, including a previously unrecognised identifiable intangible asset and land under roads, or an upgrade to or replacement of a major component of an existing asset of the grantor.*

AASB 1059 para B5 provides examples of assets that can be service concession assets therefore providing a guide as to the types of assets which could provide public services. These examples are as follows:

- roads (and land under roads);
- bridges;
- tunnels;
- prisons;
- hospitals;
- water distribution facilities;
- energy supply and telecommunication networks; and
- registries and databases.

2.2.4 Criterion 4 - the grantor controls and therefore recognises a Service Concession Asset where it controls or regulates:

- what services the operator must provide with the asset;
- to whom it must provide them; and
- at what price;

A fundamental principle reflected in AASB 1059 is determining whether the grantor 'controls' access to the benefits of the underlying asset or assets of a service concession arrangement. The standard provides guidance in relation to 'control' (AASB 1059 para B15 to B18), stating that an essential element of control is the ability to exclude or regulate the access of others to the benefits of an asset.

'Control' needs to be distinguished from management of the asset, as even though an operator may have wide managerial discretion it may not in fact 'control' the asset.

In order to have control of a service concession asset, the grantor must control what services the asset provides, to whom they are provided and at what price. This control can be either explicit control through the service concession contract or implicit control through regulation.

Control by Contract

Control is explicit if the service concession agreement (ie the contract) specifies that the grantor controls or regulates the price, the services to be provided and to whom the operator must provide the services.

Where a contract does not specify all three of these conditions it is still possible that the grantor has implicit control through regulations by a third party. Therefore, if no explicit control exists then the grantor needs to determine whether implicit control exists.

Control through Regulation

Implicit control is a means by which an agency can demonstrate control of the substantive benefits of a service concession asset. Implicit control is brought about by regulation effectively taking away the operator's ability to determine the services, recipients or price of services provided by the service concession asset.

The standard provides guidance in relation to 'regulation' in AASB 1059 para B19 to B27, which clarifies that:

- The grantor's control of a service concession asset does not require the contract to refer to the regulator or the regulation for implicit control to exist. That is, the grantor can rely on the regulator exercising its powers within the parameters applicable to the regulator. However, it is important to note that the contract should include the regulations where a service concession arrangement does not clearly fall within an existing regulatory framework;
- The grantor does not have to be related to the regulator or direct the activities of the regulator for implicit control to exist, that is, the regulator can be a third party. So the regulator could be an independent Commonwealth entity;
- Governments often have the power to regulate the behaviour of entities operating in certain sectors of the economy, either directly or through specifically created agencies. Such broad regulatory powers do not constitute control;
- For there to be control of services, recipients of services, or price of services provided by the service concession asset through regulation, the regulation must be substantive. A substantive feature, for example, would be where an arrangement purports to give the operator freedom to set prices but is required to return excess profits to the grantor. Therefore, the operator's return is capped and as such the control of the price element rests with the grantor so the control test is met. Non-substantive features, such as a cap that will apply only in remote circumstances, shall be ignored; and

- In order to establish grantor control of an asset under regulation, the asset will need to provide substantially regulated services. That is, some service concession assets can be partly regulated which is where the services, recipient or prices are partly controlled and partly not controlled by the agency. This can occur where the regulated and unregulated services are provided by separate assets in the same arrangement so each can be treated separately. For example, where a hospital building can be separated into a public and private wing. This can also occur where a single asset is providing regulated and unregulated services, but the unregulated services are ancillary (see section 2.2.1 part 1(b)). Where this is the case the control tests shall be applied as if those ancillary services did not exist. For example, a public hospital provides regulated services so it would be considered that the agency has control of the hospital under regulation, even though the hospital contains a cafeteria and a florist that are providing unregulated services.

2.2.5 Criterion 5 - the grantor controls (through ownership, beneficial entitlement or otherwise) any significant residual interest in the asset at the end of the term of the arrangement, or the asset is used in the arrangement for its entire economic life.

The grantor must control through ownership, beneficial entitlement or otherwise any significant residual interest in the asset at the end of the term of the arrangement (see AASB 1059 para B32). In looking at this criterion it is necessary to examine both 'control' and 'significant residual interest'.

Control

AASB 1059 states that control in relation to this criterion exists where a grantor has substantive rights to prevent or restrict the operator's ability to pledge or sell the asset at the conclusion of the service concession arrangement. This would occur, for example, where the service concession contract states that the asset will be returned to the grantor at the end of the term of the service concession arrangement.

Substantive rights allow the grantor the practical ability to exercise that right when required. For example, substantive rights would involve the grantor formally approving the transfer of an asset to a transferee rather than just having protective rights of being able to refuse any transfer merely on the grounds that the transferee is not fit and proper.

Significant Residual Interest

'Residual interest' in the asset is the estimated fair value (current replacement cost) of the asset, determined at the inception of the arrangement, as if it were already of the age and in the condition expected at the end of the service concession arrangement. The residual interest includes any components of the service concession asset that are replaced by the operator during the service concession arrangement.

Not all of the 'residual interest' that a grantor might have in an asset will be a 'significant' residual interest. Although 'significant' is not defined in the standard, there are things that the grantor can assess to determine whether a residual interest is 'significant'. That is, the grantor's residual interest is likely to be more significant where the term of the service concession arrangement is relatively short when compared to the entire economic life of the asset. For example, if a service concession arrangement for a light rail asset is 20 years and the economic life of the light rail asset is 50 years then it is likely that the grantor will have a significant residual interest in the asset. This is because where the length of the arrangement is short, when compared to the economic life of the asset, will result in less depreciation of the asset and therefore a higher value of the asset at the end of the service concession arrangement.

3. ACCOUNTING FOR SERVICE CONCESSION ARRANGEMENTS UNDER AASB 1059

3.1 MEASUREMENT OF A SERVICE CONCESSION ASSET

3.1.1 Initial Measurement

Service concession assets are measured at current replacement cost on initial recognition.

Where there is a service concession arrangement and the grantor controls the service concession asset, the asset is initially recognised at current replacement cost in accordance with the cost approach to fair value in AASB 13 *Fair Value Measurement*.

The current replacement cost reflects the amount that would be required at the time to replace the service capacity of an asset.

The service concession asset is measured at current replacement cost regardless of whether the related liability is measured under the financial liability model, the grant of the right to the operator model, or both.

Where there is an existing asset that the grantor controls which falls within a service concession arrangement it is to be reclassified as a service concession asset, and its carrying amount adjusted to current replacement cost with any difference between these two amounts accounted for as if it is a revaluation of the asset (AASB 1059 para 7 & 8). It is important to note that this does not constitute a formal revaluation under AASB 116 *Property, Plant and Equipment* or AASB 138 *Intangible Assets*. Instead, agencies are required to use the revaluation principles contained in AASB 116 and AASB 138 when accounting for the difference between the carrying amount and the current replacement cost.

3.1.2 Subsequent Measurement during the Service Concession Arrangement

Subsequent to initial recognition, where the fair value model is used, service concession assets are measured at current replacement cost less any subsequent accumulated depreciation and accumulated impairment losses. Where the service concession assets are measured using the cost model, they shall continue to be carried at cost less any subsequent accumulated depreciation and accumulated impairment losses.

ACT Accounting policy requires that land, buildings, infrastructure and heritage & community assets that are service concession assets be measured under the fair value model in AASB 116. Plant &

equipment, leasehold improvements and intangible assets that are service concession assets should be measured consistent with the agencies current practice for these asset classes.

Subsequent to initial recognition the service concession asset will continue to be measured at current replacement cost under the fair value model in AASB 116. AASB 1059 states that references to fair value in other Standards shall be read as current replacement cost for the purpose of service concession assets. AASB 1059 designates current replacement cost as fair value under a revaluation model in AASB 13.

The asset is depreciated in accordance with AASB 116 *Property, Plant and Equipment* or amortised in accordance with AASB 1038 *Intangible Assets* as appropriate, with any impairment recognised in accordance with AASB 136 *Impairment of Assets*. The depreciation or amortisation expense is recognised over the asset's useful life, not over the concession term. The active market requirements in AASB 1038 do not apply to service concession assets (AASB 1059 para 9(a) & 9(b)).

3.1.3 Subsequent Measurement after the End of a Service Concession Arrangement

Upon cessation of a service concession arrangement, assets that were service concession assets will be required to be accounted for in accordance with other applicable accounting standards (see AASB 1059 para 10(c)). In particular:

- the grantor needs to reclassify the asset based on its nature or function;
- the references to fair value in other standards are no longer to be read as current replacement cost. Any of the approaches in AASB 13 to fair value measurement may be applied to the asset under a revaluation model, as appropriate. Furthermore, the active market requirements in AASB 138 for the revaluation of an intangible asset shall apply; and
- when the grantor loses control of the asset it is derecognised in accordance with AASB 116 or AASB 138. Internally generated intangible assets that were recognised as service concession assets (including those that do not qualify for recognition under AASB 138) are not derecognised at the end of the term of the service concession arrangement, unless the grantor loses control of the asset at that time.

3.2 SERVICE CONCESSION LIABILITY

3.2.1 Initial Recognition and Measurement of a Service Concession Liability

The grantor recognises a service concession liability at the same time as recognising a service concession asset.

The liability is initially measured at the same amount as the asset, adjusted for any other consideration exchanged between the grantor and the operator (AASB 1059 para 11 & 12). Where an existing asset of the grantor is reclassified as a service concession asset then the grantor does not recognise a corresponding service concession liability for this asset, except in circumstances where additional consideration is provided for the asset by the operator.

All service concession liabilities are initial measured using this methodology. However, the type of liability initially recognised, as well as how the liability is subsequently accounted for and measured, is dependent on which of the service concession liability models used – the financial liability model or the grant to a right to operator model.

The liability model used is determined by the requirements of each service concession arrangement and depends on how the operator is compensated under the terms of the contract. In a service concession arrangement, the grantor usually compensates the operator by one of the following (also see AASB 1059 para 14 which outlines the first three dot points below):

- The grantor makes payments to the operator. Where the grantor makes payments to the operator, this is accounted for under the '**Financial Liability**' model (see Section 3.2.1);
- The grantor grants the operator the right to charge third-party users of the service concession asset (e.g. a toll road). This is accounted for under the '**Grant of a Right to the Operator**' model (see Section 3.2.2);
- The grantor grants the operator access to another revenue-generating asset for the operator's use (e.g. a private wing of a hospital or private parking facility adjacent to a public facility). This is accounted for under the '**Grant of a Right to the Operator**' model (see Section 3.2.2); and
- A combination of the above, that is, where the grantor makes payments to the operator and grants the operator the right to charge third-party users of the asset and/or grants the operator access to another revenue-generating asset. This is accounted for under a '**Hybrid Arrangement**' (see Section 3.2.3).

3.2.1 Financial Liability Model for Liability Measurement

Type of Liability Initially Recognised

A financial liability is initially recognised where the grantor has a contractual obligation to make specified or determinable future payments (cash or another financial asset) to the operator for the construction, development, acquisition or upgrade of a service concession asset.

These specified or determinable future payments are generally for third-party usage of a service concession asset, or any shortfall between amounts received by the operator from users of the service concession asset and any other specified or determinable amounts payable by the grantor.

Subsequent Measurement

The future payments must be allocated between payments relating to the liability (capital component) and payments for services provided by the operator (operating component) (see AASB 1059 para 20).

Subsequent to initial recognition the financial liability (capital component) is accounted for in accordance with AASB 9 *Financial Instruments*, AASB 132 *Financial Instruments: Presentation* and AASB 7 *Financial Instruments: Disclosures* (except where AASB 1059 requires otherwise). The operating component is subsequently accounted for in accordance with other relevant Standards. This generally means that the operating component of the payments is normally recognised as expenses as the services are provided.

When the financial liability is subsequently measured at amortised cost in accordance with AASB 9, the finance charge is determined based on the effective interest method. When the financial liability is subsequently measured at fair value through profit or loss, AASB 9 requires the fair value movements in the financial liability to be recognised as a gain or loss in profit or loss.

Any finance charge related to the liability in a service concession arrangement is presented consistently with other finance charges in accordance with AASB 101 *Presentation of Financial Statements*, AASB 123 *Borrowing Costs* and AASB 7 *Financial Instruments: Disclosures*.

3.2.2 Grant of A Right to the Operator (GORTO) Model for Liability Measurement

Type of Liability Initially Recognised

An unearned revenue liability is initially recognised where the grantor grants the operator a right to charge third party users or a right to access another revenue-generating asset.

Subsequent Measurement

Subsequent to initial recognition the GORTO liability is reduced, and revenue recognised throughout the term of the service concession arrangement according to the substance of the arrangement.

In practice, a straight-line method may generally be appropriate for the recognition of revenue.

3.2.3 Hybrid Arrangement

In some service concession arrangements the grantor may compensate the operator with both:

- payments for the construction, development, acquisition or upgrade of a service concession asset; and
- the right to charge third-party users of the service concession asset and/or a right to access another revenue-generating asset.

The grantor recognises two separate liabilities for the consideration paid to the operator:

- **a financial liability for the payment made by the grantor to be accounted for under the financial liability model; and**
- **an unearned revenue liability for the right to charge third party users and/or a right to access another revenue-generating asset to be accounted for under the GORTO Model.**

After the total liability is recognised (ie at the same amount of the service concession asset) the grantor must calculate the financial liability part first, with the remainder of the total liability then allocated to the GORTO liability. The financial liability portion is calculated by discounting future payments using the contractually specified interest rate in accordance with AASB 9 or otherwise a prevailing market rate for a similar instrument with a similar credit rating. Rates for a similar instrument could include:

- the operator's cost of capital specific to the service concession asset;
- the grantor's incremental borrowing rate; or
- another rate appropriate to the terms and conditions of the arrangement.

An interest rate is needed in order to discount the expected future cash flows to a present value.

The remaining portion of the total liability is then allocated to an unearned revenue liability.

ACT Accounting policy does not specify the type of liability measurement an agency will use as this will depend on contractual agreements between the parties.

3.2.4 Financial Impact of each Model

The GORTO Liability model is used where the grantor grants the operator a right to charge third party users or to access another revenue-generating asset. Therefore, under this Model the Agency will not be the one who pays the operator for constructing, operating and maintaining the asset. Instead, it will be a third party who pays. So, under the GORTO Liability model the Agency recognises revenue as the liability is reduced.

The Financial Liability Model is used where the grantor pays the operator directly for constructing, operating and maintaining the asset. Therefore, as the Financial Liability reduces the Agency will recognise an expense. However, it should be noted that an Agency can directly charge users to recover some of the cost that it pays to the operator. For example, an Agency pays the operator to construct, operate and maintain light rail assets and then directly charges the public for using the light rail in order to recover some of the cost it is paying to the operator.

Therefore, using the GORTO model has a better financial impact than the Financial Liability model on the Agency/Territory. The Hybrid Arrangement sits somewhere between the GORTO Liability model and the Financial Liability model depending on how the arrangement is structured.

It is important to note that the structure of a service concession arrangement is a decision for Government and the Agency, taking into account the policy outcomes the Government is trying to achieve. The accounting treatment/financial impact will only be one factor that is considered when deciding on the structure of a service concession arrangement.

3.3 PAYMENTS MADE THROUGHOUT THE LIFE OF THE ARRANGEMENT

Throughout a service concession arrangement, a grantor shall recognise any upgrade or replacement of a major component of a service concession asset, as a separate service concession asset and a related separate service concession liability when the upgrade or replacement occurs. The new service concession asset is then depreciated after its recognition.

Where a replacement of a major component of a service concession asset occurs before it is originally scheduled, this will result in the original asset not being fully depreciated. If this occurs the remaining value of the asset would need to be derecognised in accordance with AASB 116 before the new major service concession asset component replacement is recognised.

Where a major component replacement results in a new GORTO liability, the related revenue is recognised evenly over the remaining term of the arrangement. This is the case even where the replacement component's useful life is different. However, where the expenditure represents an improvement (upgrade) in service potential rather than a component replacement, the revenue is recognised only once the upgrade has occurred. The construction of a new traffic lane would generally be considered an upgrade/improvement whereas the replacement of the original surface layer of an existing road would be a major component replacement.

Given the amount of revenue recognised each year increases with each subsequent replacement, this results in more revenue being recognised towards the end of the arrangement.

3.4 EXAMPLE JOURNALS OF A SERVICE CONCESSION ARRANGEMENT

Attachment A to this Policy Paper provides some basic example journals for a service concession arrangement.

4. ACCOUNTING FOR ARRANGEMENTS THAT FALL OUTSIDE THE SCOPE OF AASB 1059

Public Private Partnerships (PPPs) can be structured in a number of different ways and some PPPs will inevitably fall outside the scope of AASB 1059. This would occur if, for example:

- The operator is only managing maintenance activities (i.e. ancillary services) that are not considered to be public services provided by the asset; or
- Where public services are being provided by the operator but the operator is not managing at least some of the public services at its own discretion.

Where a new or existing arrangement is not a service concession arrangement or the agency does not control the asset under AASB 1059, it needs to account for the substance of the arrangement under the relevant Accounting Standard(s). That is, the agency needs to assess which other accounting standards are applicable, for example does it need to be accounted for as property, plant and equipment in accordance with AASB 116, a right-of-use asset (lease) in accordance with AASB 16, an intangible asset in accordance AASB 138, a contingent asset in accordance with AASB 137 or maybe not require any accounting at all (see AASB 108 para 10 and AusCF11).

5. PRESENTATION AND DISCLOSURE

An agency should disclose qualitative and quantitative information about its service concession arrangements, including the following:

- A description of the arrangements;
- Significant terms of the arrangements that may affect the amount, timing, and uncertainty of future cash flows (e.g. the period of the arrangement, re-pricing dates and the basis upon which re-pricing or renegotiation is determined);
- The nature and extent (e.g. quantity, time period, or amount as appropriate) of:
 - rights to receive specified services from the operator;
 - the carrying amount of service concession assets as at the end of the reporting period, including separate disclosure for existing assets of the grantor classified as service concession assets during the reporting period;

- rights to receive specified assets at the end of an arrangement;
 - renewal and termination options;
 - other rights and obligations (e.g. major overhaul of service concession assets); and
 - obligations to provide the operator with access to service concession assets or other revenue-generating assets; and
- changes in arrangements occurring during the reporting period (AASB 1059 para 28 & 29).

These disclosure requirements are to be provided individually for each material service concession arrangement or in aggregate for service concession arrangements involving services of a similar nature.

In addition to the disclosures outlined above, an agency must also follow the relevant disclosure requirements in AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets*. This will involve service concession assets of a similar nature being included as a subset within one class of assets, for example a courthouse building that is a service concession asset would be included as a subset of the building asset class. However, a service concession asset may be included in more than one class of assets. For example, a toll bridge may be included in an infrastructure/bridges asset class for the purposes of AASB 116 and included within toll roads for the purposes of AASB 1059.

Attachment B to this Policy Paper provides example Model disclosures of a service concession arrangement involving light rail assets.

6. TRANSITION ARRANGEMENTS

AASB 1059 provides two options in relation to the transition arrangements for the adoption of this standard in the 2020-21 financial year. These options are as follows:

1. Full Retrospective Approach – apply the standard retrospectively to each prior period in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*; or
2. Modified Retrospective Approach – apply the standard retrospectively by recognising and measuring service concession assets and related liabilities at the date of initial application.

It is ACT Accounting Policy that ACT Government agencies use the Modified Retrospective Approach.

This will result in the:

- *Service concession assets* being measured at current replacement cost in accordance with the cost approach to measuring fair value in AASB 13 on initial recognition (i.e. 1 July 2019). Under AASB 116 para 35 where property, plant and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount and can be treated in one of two ways:
 - Gross restatement - the gross carrying amount is adjusted in a manner that is consistent with the carrying amount of the asset i.e. may be restated proportionately to the change in the carrying amount and accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount; and
 - Net restatement - the accumulated depreciation is eliminated against the gross carrying amount of the asset.

When initially recognising service concession assets, the standard indicates the assets should be measured using the net restatement method.

- *Service concession liabilities* being calculated as follows:
 - *Financial Liabilities Model* – a Financial Liability(s) is recognised at fair value at the date of Initial Application (1 July 2019); and
 - *GORTO Model* – a GORTO Liability(s) (i.e. unearned revenue liability) is measured at the current replacement cost of the corresponding service concession asset at the date of initial recognition (1 July 2019). This then needs to be adjusted to reflect the remaining service concession period relative to the total period of the arrangement, less any related financial liability measured as per the dot point directly above. A GORTO Liability that represents the additional consideration an operator has provided to access an existing asset of the grantor under a service concession arrangement is recognised at the amount of the proceeds received adjusted to reflect the remaining service concession period relative to the total period of the arrangement.
- *Adjustments to service concession assets/liabilities* - Any net adjustments to assets and liabilities at the date of initial recognition are recognised in opening accumulated funds; and
- *Disclosure* – A grantor must disclose that they have adopted the Modified Retrospective Approach as well as information regarding the measurement of the service concession asset and liability as outlined in Section 5.

Also see **Attachment B** to this Policy Paper for Model disclosure requirements in relation to the transition to AASB 1059.

ATTACHMENT A - JOURNALS FOR A BASIC SERVICE CONCESSION ARRANGEMENT

The below is an example of the journals that would be required in a basic service concession arrangement:

- The asset is constructed at a cost of \$25,000,000 within one year.
- After the asset is constructed at the end of year one, the grantor then pays the operator \$1,700,000 each year over the next 25 years of the service concession arrangement.
- Useful life of the service concession asset is 50 years.
- Property, Plant and Equipment is revalued every three years. Note that in this example the asset increases when revalued at the end of year 4. There is currently a positive balance in the Asset Revaluation Surplus account. The value of the asset does not change in any of the subsequent revaluations after year 4.
- At the end of the service concession arrangement the carrying value of the asset (current replacement cost) is the same as the fair value measured in accordance with AASB 13.

	Account	Amount	
Dr	Property, Plant & Equipment (Service Concession Asset)	\$25,000,000	
Cr	Financial Liability (Service Concession Liability)		\$25,000,000
Property, Plant and Equipment is recognised progressive in Year 1 as the service concession asset is being constructed. The corresponding service concession liability is also recognised.			
Dr	Depreciation – Service Concession Asset	\$500,000	
Cr	Accumulated Depreciation – Service Concession Asset		\$500,000
To recognise depreciation for the service concession asset at the end of Year 2.			
Dr	Finance Charge Expense	\$1,181,130	
Dr	Financial Liability (Service Concession Liability)	\$518,870	
Cr	Bank		\$1,700,000
To recognise the service concession annual payment of \$1.7m at the end of Year 2, split between the interest charge and the reduction in the Financial Liability.			

AAPP 109 - AASB 1059 'Service Concession Arrangements: Grantors'

Dr	Depreciation – Service Concession Asset	\$500,000	
Cr	Accumulated Depreciation – Service Concession Asset		\$500,000
To recognise depreciation for the service concession asset at the end of Year 3.			
Dr	Finance Charge Expense	\$1,154,828	
Dr	Financial Liability (Service Concession Liability)	\$545,172	
Cr	Bank		\$1,700,000
To recognise the service concession annual payment of \$1.7m at the end of Year 3, split between the interest charge and the reduction in the Financial Liability.			
Dr	Depreciation – Service Concession Asset	\$500,000	
Cr	Accumulated Depreciation – Service Concession Asset		\$500,000
To recognise depreciation for the service concession asset at the end of Year 4.			
Dr	Finance Charge Expense	\$1,127,194	
Dr	Financial Liability (Service Concession Liability)	\$572,806	
Cr	Bank		\$1,700,000
To recognise the service concession annual payment of \$1.7m at the end of Year 4, split between the interest charge and the reduction in the Financial Liability.			
Dr	Property, Plant & Equipment (Service Concession Asset)	\$1,000,000	
Cr	Asset Revaluation Surplus		\$1,000,000
Revaluation of the service concession asset at the end of Year 4.			
The journals outlined above for years 2 to 4 are similar to the journals that are required to be recognised from year 4 to year 26. The service concession arrangement concludes at the end of year 26 in this example and the below journals are required when this occurs.			

AAPP 109 - AASB 1059 'Service Concession Arrangements: Grantors'

Dr	Depreciation – Service Concession Asset	\$553,191	
Cr	Accumulated Depreciation – Service Concession Asset		\$553,191
To recognise depreciation for the service concession asset at the end of Year 26.			
Dr	Financial Liability (Service Concession Liability)	\$1,700,000	
Cr	Bank		\$1,700,000
To recognise the service concession annual payment of \$1.7m at the end of Year 26, split between the interest charge and the reduction in the Financial Liability.			
Dr	Property, Plant & Equipment	\$13,829,798	
Cr	Property, Plant & Equipment (Service Concession Asset)		\$13,829,798
Moving the service concession asset to Property, Plant & Equipment at the end of the service concession arrangement.			



Chief Minister, Treasury and Economic
Development Directorate

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