

Financial Reporting and Accounting Guide

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Service Concession Arrangements

This publication provides an outline of the key steps to be undertaken by grantors when accounting for service concession arrangements in accordance with AASB 1059 *Service Concession Arrangements: Grantors*.

What is a service concession arrangement?

A service concession arrangement is a contract between a grantor (public sector entity) and an operator in which the operator has a right of access to an asset or group of assets (referred to as a 'service concession asset') to provide public services on behalf of the grantor for a period of time, and where the operator manages at least some of those services under its own discretion.

Arrangements within the scope of the standard will typically involve the operator constructing, developing or acquiring new assets, or upgrading existing assets of the grantor, and operating and maintaining those assets for the period of the arrangement.

Principal requirements of the standard

AASB 1059 *Service Concession Arrangements: Grantors* applies to annual reporting periods beginning on or after 1 January 2020 and requires a grantor to recognise a service concession asset, and a corresponding liability, in relation to a service concession arrangement when the grantor controls the underlying asset.

It was recently amended by AASB 2021-4 *Amendments to Australian Accounting Standards – Modified Retrospective Transition Approach for Service Concession Grantors* which amended the modified retrospective method for service concession grantors measuring the Grant of a Right to the Operator liability when implementing AASB 1059.

The grantor controls the underlying asset if, and only if:

- a) the grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and
- b) 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.

Grantor control through 'regulation' does not require the contract to refer to the regulation, or the grantor to control or be related to the regulator.

Recognition and measurement of service concession assets

The grantor recognises a service concession asset when the grantor obtains control of the underlying asset.

The service concession asset is initially measured at its current replacement cost, which is determined in accordance with the 'cost approach' under AASB 13 *Fair Value Measurement*.

Subsequent to initial recognition, the service concession asset is depreciated or amortised by the grantor over its useful life in accordance with AASB 116 *Property, Plant and Equipment* or AASB 138 *Intangible Assets*, as appropriate, and is subject to impairment testing under AASB 136 *Impairment of Assets*

Recognition and measurement of corresponding liabilities

When a grantor recognises a service concession asset, the grantor also recognises a corresponding liability. The nature of the liability depends on the nature of the consideration exchanged between the grantor and the operator, which is determined with reference to the terms and conditions of the contract.

Consideration exchanged typically includes either, or a combination of, making payments to the operator, or granting the operator the right to earn revenue from third-party users of the service concession asset or access to other revenue generating assets.

Financial liability

Where the grantor has a contractual obligation to deliver cash or another financial asset to the operator for the construction, development, acquisition or upgrade of the service concession asset, the liability is accounted for as a 'financial liability'.

Under the 'financial liability' model, payments made by the grantor to the operator are allocated as reductions of the liability, interest expense and services expense, according to the substance of the payments.

Grant of rights to the operator

Where the grantor grants to the operator the right to earn revenue from third-party users of the service concession asset or access to other revenue generating assets for the operator's use, the liability is accounted for as 'unearned revenue'.

Under the 'grant of rights to the operator' model, revenue is recognised by the grantor (and the liability for 'unearned revenue' reduced) according to the economic substance of the service concession arrangement.

Combination of making payments and granting rights

If the grantor compensates the operator partly by making payments and partly by granting rights, each part of the liability is accounted for separately.

Accounting for other revenue

Any other revenue arising from a service concession arrangement, in addition to any revenue arising from the grant of rights to the operator (discussed above), is accounted for in accordance with AASB 15 *Revenue from Contracts with Customers* or AASB 1058 *Income of Not-for-profit Entities*, as appropriate.

Accounting for other liabilities

Service concession arrangements may potentially include various forms of financial guarantees and/or performance guarantees.

Other liabilities, commitments, contingent liabilities and contingent assets arising from a service concession arrangement are accounted for in accordance with other applicable Australian Accounting Standards. This may include, for example, AASB 9 *Financial Instruments* and AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

Further information and assistance

Contact Pitcher Partners for further information and assistance on accounting for service concession arrangements.

Contact us



Kylee Byrne *Melbourne*
Executive Director
+61 3 8610 5292
kylee.byrne@pitcher.com.au



Darryn Rundell *Melbourne*
Accounting Technical (IFRS) and
Financial Reporting Specialist
+61 3 8610 5574
darryn.rundell@pitcher.com.au

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