INTRODUCTION

The purpose of this FRR is to provide guidance to agencies (as grantors) when assessing the financial reporting of and disclosure for service concession arrangements in the absence of a specific Australian Accounting Standard that deals with the subject.

The International Accounting Standards Board (IASB) has specified the accounting requirements for the operators only in IFRIC 12 Service Concession Arrangements.

The International Public Sector Accounting Standards Board (IPSASB) approved IPSAS 32 Service Concession Arrangements: Grantor in September 2011 for application to reporting periods beginning on or after 1 January 2014. Note that Australian public sector reporting entities are not required to comply with announcements made from the IPSASB.

The Australian Accounting Standards Board (AASB) issued AASB 1059 Service Concession Arrangements: Grantors in July 2017, for application to reporting period beginning on or after 1 January 2019. Until AASB 1059 comes into effect, agencies shall continue to apply the guidance in this FRR.

Policy items, indicated by shaded bold print, form the Minimum Reporting Requirements (MRRs) referred to in sections 42(1) and 43(1) of the Financial and Performance Management Standard 2009 (FPMS). These are mandatory for departments. Statutory bodies must also have regard to these requirements and apply them where they are considered relevant in the circumstances.

Application Guidance, indicated by plain text under the “Application Guidance” sub-headings, provides support on interpreting and applying the mandatory policy items and other matters.

Existing Queensland Arrangements for the provision of Public Infrastructure by Other Entities, contained in Appendix 1, provides summarised details on some existing service concession arrangements in Queensland and how they are generally accounted for.
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5D.1 ACCOUNTING FOR SERVICE CONCESSION ARRANGEMENTS

REFERENCES

- Framework for the Preparation and Presentation of Financial Statements
- AASB 101 Presentation of Financial Statements
- AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors
- AASB 116 Property, Plant and Equipment
- AASB 117 Leases
- AASB 137 Provisions, Contingent Liabilities and Contingent Assets
- AASB 138 Intangible Assets
- Interpretation 12 Service Concession Arrangements
- Interpretation 129 Service Concession Arrangements: Disclosures

APPLICATION GUIDANCE

Departments and statutory bodies are required to apply applicable Australian Accounting Standards and Interpretations relevant to the individual arrangements concerned. In the absence of an Australian Accounting Standard that specifically applies to a transaction, agencies must use their judgement in developing and applying an accounting policy. AASB 108 paragraph 10 provides further information on this issue.

In making their judgement, agencies are to refer to the following in descending order (paragraphs 11 and 12 of AASB 108):

i) the requirements in Australian Accounting Standards dealing with similar and related issues;

ii) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework for the Preparation and Presentation of Financial Statements (the Framework);

iii) the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to Australia in developing accounting standards;

iv) other accounting literature; and

v) accepted industry practices (but only to the extent that iii), iv) and v) do not conflict with Australian Accounting Standards or the Framework.)
Queensland Treasury’s position in relation to Interpretation 12 is as follows:

- Interpretation 12 gives guidance on the accounting by operators for service concession arrangements. It does not address the accounting by grantors (i.e. governments).

- Mirror accounting for service concession arrangements where grantors mirror the accounting treatment adopted by operators, will not be supported by Queensland Treasury without the agency first undertaking a thorough review of the individual circumstances of the transaction and such accounting treatment is demonstrated to reflect the substance of the arrangement.

- Mirror accounting of Interpretation 12 for a service concession arrangement assumes the grantor both controls and directly benefits from the infrastructure asset and therefore requires it to recognise the infrastructure asset that forms part of the concession arrangement on its Statement of Financial Position.
  
  o An asset is recognised in the financial statements of an entity when it controls (among other criteria) the future economic benefits flowing from the asset.

- Mirror accounting often does not reflect the substance of a service concession arrangement from the grantor’s perspective. That is, the purpose of such arrangements is primarily to transfer the rights and obligations relating to the asset under the service concession arrangement to the operator.

Queensland Treasury’s position in relation to IPSAS 32 is as follows:

- IPSAS 32 gives guidance on the accounting by grantors for service concession arrangements. When accounting for service concession arrangements, the standard uses an approach that is consistent with that used for the operator’s accounting in Interpretation 12. That is, the grantor recognises a service concession arrangement asset it controls.

- Adoption of IPSAS 32 when accounting for service concession arrangements will not be supported by Queensland Treasury without the agency first
undertaking a thorough review of the individual circumstances of the transaction and such accounting treatment is demonstrated to reflect the substance of the arrangement.

In the absence of a specific, currently applicable accounting standard, agencies should account for the arrangement based on the substance of the transaction and the contract terms. For example:

- The agency may determine that it has obtained a right to use the asset in return for the series of payments, in which case the transaction is accounted for as a lease under AASB 117.
- The agency may determine that it owns the asset outright and is in substance acquiring the asset through a financing arrangement, the transaction would then be accounted for as PP&E under AASB 116 and a financial liability under AASB 139.
- The agency may determine that it does not control the asset and does not have a corresponding liability.

The Appendix to this FRR provides information on different types of service concession arrangements which may assist agencies in developing an accounting position for their transactions.

**AASB 1059 Service Concession Arrangements: Grantors**

The AASB issued AASB 1059 Service Concession Arrangements: Grantors in July 2017, applicable to reporting periods beginning on or after 1 January 2019. Therefore, most agencies will apply AASB 1059 to service concession arrangements from 2019-20 financial year onwards. For 2017-18 and 2018-19 financial years, agencies should continue to apply the requirements and guidance of this FRR to all service concession arrangements currently in existence.

Refer to FRR 1A for details and transitional considerations of the new standard.
Accounting for Costs Incurred by Departments Prior to Signing of Binding Contracts

In the development stages of any service concession arrangement, costs will be incurred by departments prior to knowing conclusively:

- if the project will proceed;
- the ultimate project and/or service delivery method;
- if an asset will be created; and if so,
- if the public sector purchaser will control the benefits embodied in the asset.

Guidance material for Public Private Partnerships (PPPs) is available on the Treasury web site for Project assessment framework at:

Note that the method of delivering the project and/or service and whether a project will result in an asset of an agency is unlikely to be known prior to the signing of binding contracts.

Initial Project Costs

All initial project costs incurred prior to contract/agreement signing should generally be expensed unless Government has made a commitment (e.g. via a Cabinet decision) to construct an infrastructure asset, no matter the ultimate project and/or method of service delivery. In this instance, the preliminary project costs may be capitalised if they qualify as an element of the total cost of an asset.

Once the project and/or service delivery method is endorsed by Government and the infrastructure asset is to be relinquished under a service concession arrangement, any initial project costs previously capitalised may need to be written off.

Examples of initial project costs may include (but not be limited to) project team employee costs, accommodation costs for the project team, external commercial advisory and legal costs, technical or design costs, and development of publications for consultation or bidding processes.
**Construction Costs**

There may be times when the Government commences the construction of an infrastructure asset prior to the final project and/or service delivery method being agreed to by Government. That is, Government has made a commitment (e.g. via a Cabinet decision) to construct an infrastructure asset no matter the ultimate project and/or method of service delivery.

In such circumstances, the agency incurring costs in relation to the construction of such an infrastructure asset (or related assets) is to assume that the public sector will be delivering the project (i.e. Government will construct and operate – ‘traditional’ delivery) until such time as Government makes a decision on the ultimate delivery option.

During this initial construction period, some items may also be purchased for the project or to support the ultimate service delivery which, by their nature, qualify as an asset and should be capitalised.

Costs in relation to infrastructure assets under construction should be recognised as Work in Progress (WIP) assets.

Examples of project capital costs may include (but not be limited to) cost of acquiring land, plant and equipment, and costs incurred in the construction of infrastructure assets, including site preparation.
5D.2 DISCLOSURES FOR SERVICE CONCESSION ARRANGEMENTS

REFERENCES

➢ Interpretation 129 Service Concession Arrangements: Disclosures

POLICY

• The following minimum information for service concession arrangements must be included within the disclosures required by Interpretation 129:

  (a) The duration and key features;

  (b) The names of the other entities involved;

  (c) A description and value of the assets relinquished or acquired and the liabilities incurred, distinguishing between those recognised and not recognised in the Statement of Financial Position e.g. land/property donated to another entity; rights to use land/property; guarantees and indemnities provided; obligations to pay availability and/or service charges; rights to receive facilities and/or services; and rights to operate in a restricted market or to levy user charges;

  (d) The nature and amount of any revenues and expenses recognised upon entering the arrangement;

  (e) The nature, amount and timing of commitments for the transfer of non-current assets and lump sum payments to be made in the future;

  (f) In addition to any disclosures required under an applicable accounting standard, the total fixed and variable cash flows, where determinable, under the entire arrangement, presented separately on a contractual basis (i.e. undiscounted), and classified into
the following time bands according to the time expected to elapse from the reporting date to their expected date of payment:

- within twelve months;
- twelve months or longer and not longer than five years;
- longer than five years and not longer than ten years;
- longer than ten years; and

(g) The major assumptions used in determining variable cash flows for item (f).

APPLICATION GUIDANCE

In the absence of a specific accounting standard for service concession arrangements, Interpretation 129 Service Concession Arrangements outlines the disclosure requirements for both grantors and operators entering such arrangements.

On completion, many PPPs (or components of a PPP) that are recognised on balance sheet are accounted for by the grantor as either a finance lease under AASB 117 or as PP&E under AASB 116. In those circumstances, the relevant disclosure requirements in AASB 117 or AASB 116 apply.

However, there may be other payments under an arrangement that is not subject to capitalisation (e.g. operating cost elements) or for leased assets that are not yet complete and available for use (i.e. no lease asset or lease liability has been recognised at the reporting date). Therefore, the disclosure of cash flows required by this FRR is intended to provide holistic information on the total cash flows arising under the whole arrangement. This may result in overlap with figures disclosed in respect of certain elements of the arrangement in accordance with a specific accounting standard.
APPENDIX 1 EXISTING QUEENSLAND ARRANGEMENTS FOR THE PROVISION OF PUBLIC INFRASTRUCTURE BY OTHER ENTITIES

The State (as grantor) has entered into a number of service concession arrangements with private sector entities (the operators) to give the public access to major economic and social assets/facilities in Queensland.

These service concession arrangements can, generally, be classified into two broad categories:

Economic infrastructure arrangements

Economic infrastructure arrangements involve the delivery and operation of economic infrastructure whereby the third-party users (i.e. end users) pay for use of the infrastructure asset directly to the operator (often within a regulated payment framework) over the life of the contract. This is sometimes referred to as a 'demand-risk (i.e. patronage) transfer payment model'.

The characteristics of these arrangements include:

- The operator is generally compensated for the upgrade, construction or acquisition of infrastructure assets by the grantor granting the operator the right to earn revenue from third-party users of the asset.

- The grantor may also be required to pay an upfront payment in order to make the project more commercially attractive to a potential operator (e.g. a 'gap or subsidy' payment) or to compensate the operator for contract works undertaken on State owned assets (e.g. returned works). Other than an upfront payment, the grantor will generally have no additional rights (other than the right to the residual interest in the infrastructure asset) or other obligations in relation to the infrastructure asset.

- In the event of a default by the operator or extended force majeure (i.e. where neither party is at fault), these types of service concession arrangements have generally been structured in such a way that if the asset was handed back to

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1 National Public Private Partnership Policy and Guidelines, Infrastructure Australia (an Australian Government entity)
the State early, the State would have no obligation to compensate the operator.

Examples of service concession arrangements that involve economic infrastructure assets include water treatment and supply facilities, motorways, car parks, tunnels, bridges, airports and telecommunication networks.

In Queensland, economic infrastructure arrangement assets have generally not been recognised in the financial statements of the grantor/department. This approach has been adopted on the basis the grantor department cannot demonstrate control over the infrastructure asset, nor does it receive any future economic benefits from the asset over the concession period.

- That is, the grantor department does not fully control the infrastructure asset, the services the operator must provide, nor does it control the ‘price’ third parties pay for the use of the infrastructure asset, albeit the State may impose some contractual restrictions on the price that the operator may charge end users.

- In relation to the State’s intangible right to the residual interest in the infrastructure asset at the end of the concession period, such rights have not been recognised by the grantor department at the start of the concession period because the recognition criteria under AASB 138 have not been and are generally unlikely to be met.

i) The probability test that future economic benefits attributable to the economic infrastructure asset will eventually flow to the grantor department after a long-term concession period (e.g. 30 to 40 years) would be difficult to satisfy at the start of the concession period. For instance, consideration would need to be given to the likely:

- existence and physical condition of the asset for years out (i.e. damage, destruction or obsolescence, etc.);
- change in government policy position over the long-term concession period; and
- change in operator circumstances over the long-term concession period.
ii) Unless specifically identified under the economic concession arrangement, neither the cost nor the fair value of the right to the residual interest in the infrastructure asset would be reliably measurable at the start of the concession period. Without a specified, upfront value for the residual interest being agreed in the contract, uncertainties surrounding the condition, existence and relevant discount rates over the long-term concession period render reliable measurement difficult to achieve.

Additionally, there is currently no authoritative Australian Accounting Standard or Interpretation that specifically considers accounting for economic infrastructure service concession arrangements by grantors.

AASB 1059 will be applicable to some economic infrastructure arrangements, resulting in them being recognised on balance sheet from 2019-20 onwards. Refer to FRR 1A for details about the upcoming standard AASB 1059.

**Social infrastructure arrangements**

Social infrastructure arrangements involve the delivery and operation of social infrastructure whereby the grantor pays for the third-party (i.e. community) use of the infrastructure asset through regular service payments to the operator over the life of the contract. Generally, the grantor pays an ongoing service payment to the operator regardless of the level of patronage of the social infrastructure asset as long as the asset is ‘available for use’. This is sometimes referred to an ‘availability payment model’.

The characteristics of these arrangements include:

- The grantor pays regular service payments to the operator and such payments generally include:
  
  - a capital component – compensation for the upgrade, construction or acquisition of infrastructure assets; and
ii) an operating component – compensating the operator to operate and maintain the infrastructure asset.

- In the event of a default by the operator or extended force majeure (i.e. where neither party is at fault), these types of service concession arrangements have generally been structured in such a way that if the asset was handed back to the State early, the State would have an obligation to compensate the operator.

Examples of service concession arrangements that involve social infrastructure include hospitals, TAFEs, schools, public transport and correctional facilities.

In Queensland, social infrastructure arrangements have generally been accounted for as either leases in accordance with AASB 117 or as acquisitions of infrastructure assets in accordance with AASB 116.

- Where the asset is owned by the operator throughout the concession period and the grantor has a right to use the assets for that period, the arrangement is considered a lease. Generally, the grantor accepts substantially all of the risks and rewards in relation to the infrastructure assets, and is paying for it over the concession period. Therefore, the grantor recognises a leased asset and a finance lease liability at the commencement of the lease.

- Where the grantor owns the infrastructure assets throughout the concession period, there is in substance a financed purchase arrangement. The grantor recognises the infrastructure asset (PP&E) and a financial liability. In this case, the asset and liability are recognised progressively during construction.

- Whether treated as a lease or an acquisition, the grantor effectively recognises the capital value of the underlying infrastructure asset and also recognises a corresponding liability for the future capital payments. The assets are then depreciated over their useful lives. The liabilities are amortised over the concession period in line with the payment by the grantor (to the operator) of the capital element of the service payments.
It is important to note, however, that there will be instances where a service concession arrangement will have characteristics from both of the above types of arrangements. For example, there will be situations where there will be sharing of demand/patronage risk between the operator and the grantor.

Examples of arrangements that are not service concession arrangements include an entity outsourcing the operation of its internal services (e.g. employee cafeteria, building maintenance, and accounting or information technology functions).