Heads of Treasuries Accounting and Reporting Advisory Committee
Secretariat: NSW Treasury
C/-GPO Box 5469, Sydney NSW 2001

Contact Member for Submission: Jeanne Vandenbroek
Jeanne.Vandenbroek@treasury.nsw.gov.au

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Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
VIC 8007 Australia

Dear Dr Kendall

ITC49 Post-implementation Review of AASB 1059 Service Concession Arrangements: Grantors

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to AASB Invitation to Comment *ITC 49 Post-implementation Review of AASB 1059 Service Concession Arrangements: Grantors* (ITC 49). HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises senior accounting policy representatives from all Australian states and territories and the Australian Government.

HoTARAC members have experienced challenges of judgement in accounting and auditing of service concession arrangements. In general, HoTARAC members agree that AASB 1059 has resulted in financial statements that are more useful to users, though one member's dissenting view is explained in Appendix 1. To address the challenges in applying the standard, this submission requests further and stronger guidance in some areas and recommends the AASB reconsider the requirements to others.

If you have any queries regarding HoTARAC's comments, please contact Jeanne Vandenbroek from New South Wales Treasury on (02) 9228 5233 or by email to Jeanne.vandenbroek@treasury.nsw.gov.au.

Yours sincerely

Heads of Treasuries Accounting and Reporting Advisory Committee

ITC49 Post-implementation Review of AASB 1059 Service Concession Arrangements: Grantors

Topic 1: Public service

1. Do you have comments regarding the application of the following requirements of AASB 1059:
(a) the use of the term 'public service';
(b) the operator's involvement in providing public services on behalf of the grantor;
(c) the operator managing at least some of the public services under its own discretion; and
(d) the approach to secondary assets?
If so, please provide your views on those requirements, relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting.

ITC49:
"Some stakeholders have commented that: (a) determining whether an arrangement is within the scope of AASB 1059 involves significant judgement and can be challenging;
(b) it is unclear which services are considered 'public services' in order to determine whether an arrangement is within the scope of AASB 1059, particularly when an arrangement might also provide some commercial services;
(c) it is sometimes difficult to determine whether an entity is providing services 'on behalf of the grantor'. For example, if enabling legislation permits a public sector entity to hold an asset but prohibits it from using the asset to provide services in its own right, the entity would need to contract another party for the provision of services. In this situation, is the party that is providing the services using the asset considered to be providing services 'on behalf of the grantor'? Some stakeholders query whether the requirement to provide services on behalf of the grantor is necessary;
(d) there are instances where multiple entities are involved with the delivery of the public services with varying degrees of responsibilities, in which case it may be unclear which entity is the grantor, or the operator, of the arrangement and whether the provision of services is considered to be 'on behalf of the grantor';
(e) more guidance is needed to determine whether the operator is managing at least some of the services at its own discretion. For example, is an operator managing railway workers' rosters considered to be "managing some of the public services" when the operator has no control over the timing of the railway services?; and
(f) it is unclear whether an arrangement with a private sector entity to manage an existing local government facility (e.g. an aquatic centre, recreational centre or landfill site) for a short period (e.g. 2 years), where the local government entity sets the prices to be charged to users, should be considered a service concession arrangement.

In respect of secondary assets – an asset used or mainly used to complement the primary asset through which the public services are principally provided – some stakeholders commented that:
(a) more guidance is needed to determine whether a secondary asset is "largely providing public services" for the purpose of determining whether it should be accounted for under AASB 1059; and
(b) it is unclear whether a secondary asset should be recognised as a service concession asset under AASB 1059 where:

(i) the primary asset is controlled by a different entity;
(ii) the provision of the secondary asset is not part of the same arrangement as the provision of the primary asset; or
(iii) the secondary asset is constructed some time after the primary asset – AASB 1059 paragraph B7 does not specify the period between the construction of the primary asset and the secondary asset that would affect whether the secondary asset is considered to be part of the arrangement for the primary asset."

Public service

Under the existing standard, a lot of effort and judgement goes into assessing whether an arrangement involves provision of a 'public service'. Where the public service test is failed otherwise economically similar arrangements are accounted for differently.

Given the lack of a recognised definition of 'public service' globally and the tendency of public expectations to change over time, HoTARAC continues to believe that seeking to define a public service for the purposes of AASB 1059 would be problematic and may create further issues or unintended consequences.

HoTARAC acknowledges that the AASB may reassess whether the 'public service' concept needs to be retained as one of the conditions for an arrangement to be classified as a service concession arrangement. At this stage, HoTARAC would not support removing 'public service' as one of the conditions for an arrangement to be a service concession because the accounting implications of such a change need to be evaluated. It may result in arrangements that are not currently in scope being considered in scope.

Instead, HoTARAC would support more guidance on assessing whether an arrangement involves provision of a 'public service'.

In our view, whether something is a 'public service' should follow from the government policy that is specific to the relevant jurisdiction and considers changes in this policy over time. A good example would be banking and aviation services that were, for many years, government owned and operated prior to deregulation and privatisation. Deregulation and privatisation of certain markets may indicate that the respective services crossed the 'fine line', ceasing to be a public service and moving to a regulated market. HoTARAC notes this may result in different outcomes across jurisdictions, but believe this is consistent with the substance of each arrangement.

When providing examples to assess whether a service is a public service, the standard implies that the public services are expected to be 'necessary or essential to the general public and are generally expected to be provided by a public sector entity in accordance with government policy or regulation' (AASB 1059.B6). In our view, in the context of a particular jurisdiction, public services should not normally include services in the industries that have effectively been privatised in this jurisdiction. This is because in most cases privatisation represents government policy change where the relevant service ceased to be expected to be provided by a public sector entity in accordance with government policy or regulation.

Further, useful guidance could include indicators of a 'public service. Such a list of 'public service' indicators could include, for example, subsidised provision of goods or services, public regulatory and legislative activities/services (i.e. expected to be provided by a public sector entity in accordance with government policy or regulation), public ownership of associated assets. This could be supported with various examples (and contrasted with examples that are not public services).

The list of indicators could be similar to the list of factors (primary and secondary) considered in determining the functional currency in AASB 121 *The Effects of Changes in Foreign Exchange Rates* or the list of indicators to identify arrangements that fall within the scope of AASB 17 *Insurance contracts* in a public sector context.

Some jurisdictions may adopt, as a practical expedient, a rebuttable presumption that service provision arrangements a government enters into are arrangements to provide public services. This would align AASB 1059 with Interpretation 12 *Service Concession Arrangements* applicable to operators. While this would, in some cases, simplify scoping assessments, we do not recommend this presumption be included in the standard or guidance because applying such a presumption would result in more prescriptive outcomes based on form rather than the substance of the arrangement. As such it could result in certain arrangements that are not intended to be captured by AASB 1059 as falling in scope. Such a presumption would also not be appropriate to apply to arrangements that exist between two entities within the same jurisdiction.

A single asset providing multiple services

Assessing whether an asset provides public services requires judgement, taking into account the nature and relative significance of each of the services provided (AASB 1059.B6).

Guidance is requested on how to assess whether an arrangement/asset is fully or partially in scope of AASB 1059 or not in cases where the asset is used not exclusively for a service concession arrangement. Currently the examples in AASB 1059.B6 assume that the entire asset is subject to the same arrangement. Refer to the example scenarios below:

- An asset (e.g. a residential property) providing more than one public service with all the services significant and none of them ancillary (e.g. social housing services and medical support services), but only one of the services (social housing) is provided by the operator. The other one (medical support) is outsourced or provided by the grantor.
- An asset (e.g. a database) that is used partially as a service concession asset (SCA) and partially – for own government needs.

'On behalf of' concept

HoTARAC members have experienced challenges applying the "on behalf of" concept when determining whether an arrangement or asset is within the scope of AASB 1059. The concept appears to be a critical part of the definition of a service concession arrangement, and therefore key in terms of scoping. However, the Implementation Guidance does not deal with this concept in any detail, the standard does not provide any definition of 'on

behalf of'. We find it clear 'on behalf of' is closely linked to 'public service' however the standard also does not provide a definition of public service (see discussion above).

We believe that the standard should have more guidance to help identify who the grantor is in situations where there is more than one government agency involved in the arrangement, for example:

- When one public sector agency (Agency 1) enters into an arrangement with another public sector agency (Agency 2), it can be challenging to identify whether Agency 2 is operating on behalf of Agency 1 or vice versa
- When one public sector agency (Agency 1) has primary responsibility for providing a public service and another public sector agency (Agency 2) is signatory to the contract with the operator (acting as agent for Agency 1) who is considered the grantor?
- When more than one public sector agency is a party to the arrangement with the private sector – such as when different public sector entities are responsible for the design, construction and operation phases - it can be challenging to identify which agency should be the grantor.
- In some jurisdictions, the State itself enters into arrangements on behalf of an agency and it is challenging to identify who the grantor is in those arrangements. Some jurisdiction received advice that such arrangements should dbe treated as administered at the agency level.

In our view, for a service to be provided "on behalf of" an agency, the agency should have the legislative function and primary responsibility for the service. Some examples of how this may look in practice include:

- When a public sector entity is established with certain legislative functions (e.g. holding and maintaining some public assets) but does not have the legislative or policy ability to *provide* a public service (with the use of the assets), then an operator cannot be seen to operate 'on behalf of' an entity which does not have the legislative function and primary responsibility for that service.
- where there is *more* than one government agency involved in an arrangement and each of them has their own legislative functions and primary responsibilities, in order for services to be provided "on behalf of" the grantor, the grantor should have the legislative function and primary responsibility for that service.
- One government entity (Agency 1) has entered into a contract with the operator to provide public services, however, another government entity (Agency 2) is primarily responsible for that public service and the relevant legislative function. Our view is that Agency 1 is facilitating the transaction on behalf of Agency 2. This could be due to certain legislative functions vested on Agency 1 e.g. contracting for services on behalf of the State. As noted above, an operator cannot be seen to operate 'on behalf of' an entity which does not have the legislative function and primary responsibility for that service. Therefore, Agency 1 is not a grantor under the arrangement and is only facilitating the transaction on behalf of Agency 2.
- Similarly, if a contract with an operator is co-signed by two government agencies, the agency that holds the legislative function and primary responsibility for that service should be considered the grantor.

We acknowledge that there may be scenarios where one government agency (Agency 1) engages another government agency (Agency 2) to provide a public service and Agency 2 does not have any legislative function/primarily responsibility assigned by the government to provide the service. In this case, it is possible to argue that Agency 2 is providing the

public service on behalf of Agency 1. This would be especially true where Agency 1 is also entering into similar arrangements for the same or similar services with private sector operators.

HoTARAC would not support the concept 'on behalf of' being interpreted in a way that the public sector agency that signed the contract with the operator is automatically seen to be the grantor even though a second public sector agency is primary responsible for providing the public service. This could result in arbitrary choice of the grantor for a particular arrangement, and would represent a form over substance approach. This would be especially challenging to apply in circumstances where "the Crown" or "the State" itself enters into the contract, represented by an agency.

To determine who a service is being provided "on behalf of", and therefore who is the grantor (where there is more than one government agency involved in the arrangement, either directly or indirectly), we think it is necessary to consider the following:

- Who would be responsible for replacing the asset, if the asset ceased to be fit for purpose? Even if an agency is the owner, holder, or deemed to have control of the asset(s) that is subject to the arrangement, would it continue to have the responsibility to source replacement assets if the asset were no longer fit for the purposes of providing those services?
- Who would be responsible for providing the service or finding/appointing another operator if the service ceased to be provided by the operator?

To determine which party has primary responsibility for the public service provided with an asset, the following sources would be relevant:

- Regulation
- Legislation establishing the agency
- The stated purpose of the agency, which may be found in their organisational strategy and/or on their website.
- Governance structure
- Contract e.g. the agreement may state the respective obligations of the parties, including who would be responsible for providing the service if the operator ceased to provide the service.
- Constitution

Operator's discretion

More guidance is requested on how to determine whether the operator is managing at least some of the services at its own discretion. Significant judgement is required to determine whether:

- the service provided by the operator are sufficiently significant to the public service provided using the asset to be "at least some"; and
- the degree of discretion able to be exercised by the operator is sufficient for the operator to be considered a principal and not an agent of the grantor.

Operator Discretion: "at least some"

We believe that entities must first determine what the significant activities are of a particular public service. In order to satisfy the "managing at least some" criteria, the operator would need to be managing an activity that is significant to the public service. The standard could be amended such that references to "managing at least some" is replaced by "managing at least some of the significant components" of the public services. In addition to

making the requirements consistent with the guidance in paragraph B10, it makes it much clearer what the intention of the standard is.

It would be helpful if the AASB provided more guidance in the standard on how to assess what types of services are significant for what types of public services.

An example is social housing (i.e. an arrangement providing housing services and housing support services) under the following scenario. The responsibility of the operator is restricted to repair damage, cleaning and gardening, while the asset management responsibility is retained by the State. We believe that in this scenario services provided by the operator are not significant to the provision of housing services and housing support services. In this scenario the operator will not be considered "managing at least some" of the public service at its discretion.

We believe that the factors such as the following should be considered, individually or in combination, in determining whether a service is significant or not:

- Compensation to the operator for the service compared to other services provided under the arrangement;
- Resource requirements (e.g. direct labour, service costs etc.) for the provision of the service relative to others provided under the arrangement;
- Impact on agreed outcomes, performance and/or KPIs under the arrangement;
- Senior management time and resources committed to the service relative to others provided under the arrangement and
- Physical apportionment of the asset between different services etc.

Operator's discretion: assessing sufficient discretion - distinguishing between protective and substantive rights of the grantor

We suggest that guidance is added to the standard to help make assessment whether operator has discretion over managing of the services under a contract with the grantor depending on whether the grantor has protective or substantive rights over provision of the services. This guidance could be similar to that applied in AASB 10 *Consolidated Financial Statements*.

The guidance could cover a scenario where the grantor has ultimate approval right over the way the services are delivered. For example, the operator prepares a detailed asset management plan, timetabling etc. but the grantor has the right to approve/reject these documents. How should stakeholders distinguish when the grantor's right of approval is protective or substantive? For example, a grantor may typically approve the operations and maintenance manual. However, the operator has discretion and flexibility in preparing the O&M manual, subject to the grantor's minimum standards. Where the grantor's right to reject must be substantiated and for all practical purposes will be exercised only if the minimum standards are not met, we believe this should be viewed as a 'protective' right.

Another example, a grantor in an arrangement may specify specific KPIs which must be met by the operator, but it may be completely at the operator's discretion on how it manages and achieves these requirements. If the operator has flexibility and managerial decision-making in terms of day-to-day functioning, making granular decisions while still remining compliant with the broader KPIs, this may demonstrate the operator is managing at least some of the services under its own discretion.

Secondary assets

HoTARAC members request the AASB either clarify or remove the concept of 'secondary assets' from AASB 1059 because we find guidance on this concept limited and confusing.

HoTARAC's preferred option is to remove the concept of secondary asset. Most of the assets the jurisdictions hold, to which this concept could possibly apply, e.g. car parks, have been determined to be providing a public service in their own right. So, in many instances, entities would achieve the same accounting outcome with and without applying the secondary asset concept in the standard.

If the AASB decides to retain the 'secondary assets' concept, it would be beneficial if the AASB provides clarification on the application of secondary assets concept (including the requirements in AASB 1059.B7) preferably with some real-life examples. HoTARAC members have found the concept and examples in B7 both confusing and contradictory – does "secondary" mean secondary within the context of the arrangement, or secondary in the context of the public service? For example:

- AABS 1059.B7 refers to the "*arrangement* provides public services principally through a primary asset, and a secondary asset is used or mainly used to compliment the primary asset, such as student accommodation …" however student accommodation and a university is rarely, if ever, seen as part of the same *arrangement*. Do we therefore interpret this example to mean that the student accommodation services are a secondary service to provision of university education and research services, rather than the student accommodation asset being secondary in the *arrangement*?
- AASB 1059.B7 also refers to an example of a hospital car park, however using a hospital service concession arrangement example is problematic because hospitals generally fall outside the scope of AASB 1059 as the operators do not have responsibility for management of hospital public service. In the example, the car park is assessed as not providing a public service because it was not constructed as part of the arrangement *and* the car park is largely of a commercial nature. Do we infer from this example that the car park is not providing public services because it is not part of the arrangement? Or that the car park is not providing public services because it is largely commercial? What would the outcome be if the car park was built at the same time, as part of the same arrangement, and largely of a commercial nature? What would the outcome be if the car park was built separately but not largely of a commercial nature?

Clarity is requested as to how the secondary asset's assessment under AASB 1059 takes into account the assessment for the primary asset? In particular, can a secondary asset be part of arrangements where the primary asset is concluded to be out of scope of AASB 1059 or should the secondary asset be treated as out of scope of AASB 1059 in every case where the primary asset is out of scope of AASB 1059? One of the interpretations of AASB 1059.B7 is that secondary assets concept can only relate to arrangements where primary assets are assessed to be in scope of AASB 1059.

However, using the AASB's example, if a public hospital car park built and operated by the private sector is largely of a commercial nature (e.g. car parking is available to the general public, including hospital patrons and the car park charges commercial rates), would the car park be regarded as an asset that provides public services?

Another example of a scoping situation where one of the HoTARAC members encountered practical difficulties was in assessing whether a hospital car park is a secondary asset and whether the hospital car parking services are 'public services' under the following scenario:

- The public hospital car park is ancillary to the primary public health service being delivered
- The car park is operated by a third party under the arrangement with the State
- The parking services are provided outside an arrangement related to the hospital itself
- The car park operation is not 'largely of a commercial nature'
- The State did not have any public policy, service delivery or regulatory regime around providing public car parking services as a primary, standalone service
- Hospital staff uses a physical separate portion of the car park; the other part is used by the public
- Hospital arrangement is not a service concession.

Regarding the interaction between paragraphs AASB 1059.B7 about secondary assets and AASB 1059.B8 about assets used wholly internally: some more examples would be helpful in distinguishing between primary and secondary assets. For instance, in an arrangement between a grantor and an operator for a hospital car park that is largely for staff use, or where there is a physically distinct section of the car park reserved for staff use, would the car park or the staff section be considered a secondary asset according to AASB 1059.B7 or an outsourcing arrangement according to AASB 1059.B8? Our view is that staff car parking assists the agency to deliver public services and should be treated under AASB 1059.B8.

2. Do you have comments regarding the characteristics of an arrangement that would distinguish it as a service concession arrangement from other arrangements such as a privatisation or outsourcing arrangement, or a lease? If so, please provide your views on those characteristics.

Distinguishing a service concession from privatisation

In our view, whether something is a 'public service' should follow from the government policy that is specific to the relevant jurisdiction and considers changes in this policy over time. See comments for topic 'public service' above regarding the historical transition of banking and aviation services away from public ownership and 'public service' to private ownership in deregulated markets.

Existing assets of the grantor

AASB 1059.8 requires existing assets of the grantor to be reclassified as SCAs where they meet the control criteria in AASB 1059.5 and AASB 1059.6. Generally, HoTARAC members agree with this approach.

Minority view

Two HoTARAC member's view is that the arrangements where a public agency provides its existing asset to external parties to provide public services should be explicitly excluded

from service concession definition unless the operator is required or expected to build on or expand the asset as part of the arrangement.

The reasons for this suggestion are as follows:

1. It would make AASB 1059 more consistent:
   - paragraph IG12 of AASB 1059 states that it is the operator rather than the grantor who should be responsible for capital investment.
   - Para B2 of AASB 1059 states that: "An arrangement within the scope of this Standard typically involves an operator constructing the assets used to provide the public services or upgrading the assets (for example, by increasing their capacity) and operating and maintaining the assets for a specified period of time".

2. When a public sector agency transfers its asset to an external party to provide public services on the agency's behalf, these HoTARAC members have found it is often an outsourcing arrangement because the state normally does not intend to share management of provision of the services with the external party. This is not the experience of all HoTARAC members.

3. From a cost/benefit perspective, this would be a favourable change as there is often little actual impact on the financial statements, however the reclassification requires effort related to determining whether there is a service concession arrangement and revaluation of existing assets using Current Replacement Cost method (many, but not all, existing assets are already measured at CRC, but where they are not, they are costly to revalue e.g. internally generated intangibles and assets measured using the income approach as part of a broader CGU).

Topic 2: Grantor's control of the asset

3. Do you have comments regarding the application of the following requirements in AASB 1059 paragraph 5: (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 any significant residual interest in the asset at the end of the term of the arrangement? If so, please provide your views on those requirements, relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting. ITC 49: *"Some stakeholders have commented that too much judgement is involved in determining whether a grantor controls a service concession asset. They requested more guidance to assist in identifying how much 'control' the grantor needs to have over the services and/or pricing of the services to determine whether an arrangement is within the scope of AASB 1059.* *Some stakeholders also commented that it may be difficult to determine whether the grantor has control of any significant residual interest in the asset at the end of the term of the arrangement."*

4. An arrangement is within the scope of AASB 1059 for recognition as a service concession arrangement if all of the following conditions are satisfied: (a) the operator provides public services related to a service concession asset on behalf of the grantor; (b) the operator manages at least some of the public services under its own discretion; (c) 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 (d) the grantor controls any significant residual interest in the asset at the end of the term of the arrangement. This includes the grantor having substantive rights to prevent the operator from selling or pledging the asset during the service concession arrangement. Do you consider it appropriate for an arrangement to be accounted for under AASB 1059 only when all of the above conditions are satisfied? Please provide reasons to support your view.

5. In addition to the conditions in AASB 1059 paragraphs 2 and 5 (as set out in Question 4), are there other factors that you consider would assist in determining whether an arrangement is within the scope of AASB 1059? If so, please provide details of those factors and explain why you think they would be useful.

Partly Regulated Assets

More guidance is sought on partly regulated assets such as transport assets, ports, car parks – how to determine whether enough of the service is regulated in order to demonstrate that the grantor has control of the asset. In making the assessment of the relative quantitative significance of regulated and unregulated services, it is essential to apply an appropriate metric. What indicators should be considered to make such an assessment (volume of the services, value of the services, etc)?

Significant residual interest

Assessment over whether the grantor controls any significant residual interest in the asset can be challenging, for example, where two or more assets are involved in the service provision. HoTARAC suggests adding real-life examples to the guidance on significant residual interest.

Third party regulator

As set out in AASB1059.B20-B22 where a third party regulates what services the operator must provide with the asset, to whom it must provide them, and/or at what price, the grantor is taken to be regulating them “implicitly” or “passively”. The reason for this is that such regulation removes the ability of the operator to determine these things. While HoTARAC members generally do not agree with the AASB’s rationale that third party regulation results in control by the grantor, HoTARAC members do not believe this concept has been overly problematic in terms of being able to apply the standard.

HoTARAC recommends that paragraphs B19-B22 be amended to be clearer. Wording similar to that used in the basis for conclusions, paragraph BC29 could make the intention of the standard clearer. There is also an inconsistency – at least in wording - between paragraph 5(a) of the standard and B19-22 (and BC29). Paragraph 5(a) is written in such a way that the grantor must control/regulate all of the price, the services and access. B19-B22 and BC 29 are written in such a way that the grantor only has to have one of these.

Comments on grantor's control of the asset generally

Refer to Appendix A for alternate view.

Topic 3: Public sector operator

6. Do you have comments regarding a public sector entity applying AASB 1059 as the grantor when the operator is another public sector entity? If so, please provide your views on those requirements, relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting. If you propose excluding public-to-public arrangements from the scope of AASB 1059, what is the rationale for your view? ITC49: *"Some stakeholders have commented there are many "public-to-public" service concession arrangements, which involve an operator that is a public sector entity. These arrangements are within the scope of AASB 1059 since the Standard does not exclude arrangements where the operator is a public sector entity. Many such public-to-public arrangements are within the same department or jurisdiction. Some stakeholders have suggested that the benefits of requiring intra-group transactions to be accounted for under AASB 1059 would not outweigh the costs of that accounting when it is to be reversed on consolidation for the controlling entity or the whole of government financial statements."*

AASB 1059 does not exclude a possibility for public-to-public service concession arrangements. HoTARAC agrees that, although rare, public to public service concession arrangements are possible and should not be specifically scoped out of the scope of AASB 1059.

As mentioned above, there could be rare scenarios where one government agency (Agency 1) engages another government agency (Agency 2) to provide a public service. Agency 1 has the legislative function / primary responsibility assigned by the government to provide that service and Agency 2 does not. In this case, it is possible to argue that Agency 2 provides the service on behalf of Agency 1, and the arrangement could potentially be a public-to-public service concession.

However, taking into account the legislative context public-to-public service concessions may be less common than expected upon looking at which party has the primary responsibility and legislative remit (refer to our response to Question 1 above).

HoTARAC reiterates its request for the AASB to provide more guidance on how to apply the "on behalf of" concept. In doing so, the AASB should include consideration of a public-to-public arrangement (including providing examples).

The reason that HoTARAC believes that the appropriate application of the "on behalf of" concept would result in public-to-public service concession arrangements being rare are listed below:

- We believe that 'on behalf of' concept should be interpreted in a way that a public agency is a grantor only when that agency's primary responsibilities and legislative

functions are provide the respective public service. Public sector agencies are normally unable to act on behalf of other public agencies as each agency usually has its own primary responsibilities and legislative functions. This makes the concept of public-to-public service concessions redundant in most cases. However, we acknowledge that there may be rare cases where the primary responsibilities for provision of a public service are not clearly assigned to particular agencies, in which case a public entity may be considered acting on behalf of another when there is a service contract between them.

- As stated above in response to Question 1, if the concept 'on behalf of' were to be interpreted in such a way that in all cases the public sector agency that signed the contract with the operator is the grantor (even if a second public sector agency is primarily responsible for providing the public service), it could result in arbitrary choice of the grantor for a particular arrangement.

Topic 4: Recognition and measurement of service concession assets and related liabilities

Service concession assets

7. Do you have any comments regarding: (a) initially measuring a service concession asset at its current replacement cost using the cost approach in AASB 13; and (b) subsequently measuring the service concession asset at current replacement cost under the revaluation model in AASB 116 or AASB 138 (if the revaluation model is adopted by the entity)? Where you do have comments on (a) and/or (b), please provide your views, relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting.

ITC49:
"In respect of the recognition and measurement of service concession assets, some stakeholders have commented that:
(a) other valuation techniques in AASB 13 should be permitted to be applied in measuring a service concession asset, given that AASB 13 paragraph 61 states that an entity "shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs". In addition, applying the market approach seems to be more appropriate than applying the cost approach in measuring the fair value of land included in a service concession arrangement;
(b) anomalous outcomes could arise when measuring the fair value of a previously unrecognised internally generated intangible asset at CRC, compared with the income approach. They question the appropriateness of recognising assets that had not previously met the recognition criteria in AASB 138 and measuring them at fair value when fair value would not otherwise be permitted under AASB 138 because an active market is unlikely to exist for those intangible assets;
(c) because the operator is responsible for the construction and any upgrades, replacement or renewal of the service concession asset, in some cases the grantor has limited access to information about the asset. This creates challenges for initial and subsequent measurement, depreciation calculations and derecognition of components of the service concession asset when relevant;

(d) it is unclear whether service concession assets under construction should be measured at cost or at fair value;
(e) it is unclear whether borrowing costs or implied funding costs are required to be included in the current replacement cost of a service concession asset. The nonmandatory Illustrative Examples that accompany AASB 1059 illustrate how implied funding costs are calculated but there appear to be inconsistencies across Examples 6, 7 and 8;
(f) it is unclear whether, after initially recognising a service concession asset, any improvements to that asset should be recognised and measured in accordance with: • the subsequent measurement requirements in AASB 116 or AASB 138 as additions to the service concession asset; or • AASB 1059 paragraph B48, as a separate service concession asset with a corresponding liability; and
(g) AASB 1059 does not specify how contract modifications should be accounted for, such as when the operator provides an additional asset or service or carries out a major upgrade or replacement that was not part of the original arrangement."

Initial and subsequent measurement at Current Replacement Cost

HoTARAC believes that the AASB may want to reconsider whether mandating the use of current replacement cost (CRC) for initial and subsequent measurement of SCAs is sufficiently justified. Mandating CRC is inconsistent with AASB 13 *Fair Value Measurement* (AASB 13) (even though we note that CRC is expected to be the appropriate method under AASB 13 in most cases).

We suggest reconsidering whether SCAs should be recognised and measured as other assets in accordance with the relevant accounting standards such as AASB 116 *Property, Plant and Equipment* (AASB 116) and AASB 138 *Intangible Assets (AASB 138)*.

Some issues related to application of CRC under AASB 1059:

- It is unclear on how to value land that is part of SCA at CRC as land is normally valued using the market approach.
- In the case of for-profit public sector agencies where the service concession assets comprise a component of a larger cash generating unit valued using the income approach, the requirement to value SCAs at CRC results in (1) inconsistent valuation of otherwise similar assets – usually overvalued SCAs comparing to other assets (which can be particularly significant in an environment of rising inflation and rising interest rates) and (2) extra costs on valuing SCAs at CRC in comparison to valuing all assets, including SCAs under the income approach based on the enterprise value. If assets move back and forth between SCA and other categories of PPE, this results in unjustified fluctuation of the assets' carrying amount.
- Where a service concession arrangement has involved an internally generated intangible, such as a database with an indefinite useful life, the price paid by the private sector operator for use of the asset is significantly different to the cost of regenerating the database. This results in a very asymmetrical outcome, with a large GORTO liability and large revenue compared to a relatively low value asset and zero depreciation.

HoTARAC remains unconvinced that recognition and measurement of assets should depend on whether an asset is part of a service concession arrangement or built and owned by the grantor under the respective accounting standard - AASB 116 or AASB 138. However,

HoTARAC also acknowledges that it may be challenging to determine what the appropriate valuation approach under AASB 13 would be where the income generated by an asset accrues to the operator – for example, what would the appropriate valuation approach be for a toll road. Additional guidance would be required on how to approach identifying the appropriate valuation approach..

Recognition of internally generated intangible assets

HoTARAC is of the view that internally generated intangible assets which do not qualify for recognition as an intangible asset under AASB 138 *Intangible Assets*should not be recognised as SCAs. Provision of intangible assets to a service concession does not necessarily result in crystallisation of their value for the government in the same way as a business combination even though there may be more clarity about cash inflows associated with use of the assets by the public or cash outflows related to operation of the assets (AASB 1059.BC40).

Further, there is uncertainty around the treatment of subsequent capitalisation of such intangible assets under AASB 1059. It is unclear how the increase in an asset interacts with the GORTO liability. For example, where a database is recognised as an intangible asset under AASB 1059 in a GORTO arrangement. As new records are recognised in this database, these may be viewed as necessary to maintain the service capacity of the database, or may be viewed as increasing the service capacity of the database – in reality addition of new records do both. If the former, the new records are considered a revaluation i.e. increase in the CRC of the database with corresponding increase in the ARR. If the latter, these new records (contributed by the private sector operator) may instead increase the GORTO liability. Given these internally generated intangible assets are required to be recognised and measured because of AASB 1059 guidance is necessary.

8. Do you have any comments regarding the recognition and measurement of a service concession asset under construction? If so, please provide your views, relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting.

9. Do you have any comments regarding the calculation and treatment of borrowing costs or implied funding costs in measuring the current replacement cost of a service concession asset? If so, please provide your views, relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting.

Interest accretion (i.e. adjustment of CRC to include implied funding cost in measuring a SCA)

HoTARAC members have had significant challenges understanding how to apply the recognition and measurement requirements to service concession arrangements where the service concession asset and corresponding liability are built / incurred over a number of years. AASB 1059 seems to mostly assume that a service concession arrangement is entered into, and the asset commences operating, on the same date or at least in the same reporting period. Given a majority of service concession arrangements relate to large and complex infrastructure projects, this is an overly simplistic assumption.

AASB 1059 requires the service concession asset and service concession liability to be initially measured at the CRC of the service concession asset adjusted for any other consideration (AASB 1059.7 and AASB 1059.12). It is not clear if the value of the asset and liability should be equal at the beginning of construction, at the end of construction or both. Given the asset is subsequently measured at CRC, and a financial liability measured in accordance with AASB 9 *Financial Instruments* it is inevitable that the values of the asset and liability diverge after initial recognition. Similarly, the GORTO liability is reduced based on the economic substance of the arrangement, such that subsequent to initial measurement it is likely the value of the GORTO liability will not match the value of the service concession asset.

Examples 6 and 7 in AASB 1059 implementation guidance assume that the value of an asset constructed over a number of years will match the value of a financial or GORTO liability at the end of each year of construction, however it is not clear on what basis the examples come to this conclusion. Inconsistencies arise in interpreting the examples:

- The uplift in the CRC of the asset under construction (AUC) appears to represent "funding costs" related to construction costs in the previous year (AASB 1059.IE17, AASB 1059.IE23).
- If the uplift in CRC for "funding costs" is intended to represent a part of the SCA revaluation related to borrowing costs, there is an inconsistency between valuing SCA and similar non-SCA assets for general government sector agencies. Borrowing costs are normally expensed by such entities because of the GFS rules, but SCA assets appear to include these costs through interest accretion.
- If, however, the uplift in CRC for "funding costs" is intended to be a proxy for the fair value increase, what aspects of the revaluation increment is it intended to cover? Is this uplift in CRC intended to cover all AUC revaluation increments or only part of them? If it is just a part of total revaluation increment/decrement, what fair value increments it is supposed to cover? Should an uplift for "funding costs" not be posted if an entity revalues the AUC based on construction indices, physical inspection and other inputs with involvement of external valuers? Or should "funding costs" and AUC revaluation increments related to indexation of construction costs and revaluation increments related to other factors be added together? How should agencies avoid double counting?
- If the uplift in CRC for "funding costs" is intended to be a revaluation adjustment, why then is the uplift adjusted to the GORTO liability in Example 7 directly, and not adjusted to the asset revaluation reserve? We would expect that the accounting for the SCA should be the same regardless of whether it is a financial or GORTO liability.

Assets under construction (AUC)

HoTARAC requests that the guidance and worked examples in relation to service concession assets constructed over several years be improved and clarified, including:

- Setting out what each of the examples is intended to demonstrate or achieve, as this will help preparers interpret the examples & apply them in practice.

- Explaining the purpose and meaning of each of the entries in the examples, because this will help when preparers are applying judgements to real life examples which differ from the exact fact pattern in the examples
- unbundling the calculation of finance expenses and calculation of SCA revaluation increments during the construction phase, because even though finance expenses may serve as a proxy for fair value adjustments in limited circumstances, SCA revaluation increment should include all movements in fair value of AUC, including construction indices increase, physical condition of AUC and other factors.
- adding more years to the construction period in the examples 6-8 and assume the time value of money is not negligible. This would ensure the examples take into account compounded interest.
- Remove or explain the inconsistencies between examples 6,7 and 8 in the implementation guidance:
    - In Example 6, the adjustment to CRC for interest costs is taken to asset revaluation reserve. In Example 7, this was adjusted to the GORTO liability directly and there was no adjustment to asset revaluation reserve. We would expect that the accounting for the SCA should be the same regardless of whether it is a financial or GORTO liability.
    - For hybrid arrangements, example 8 ignores the GORTO element. It is unclear if under a hybrid arrangement, an uplift should be recognised on the GORTO element in line with example 7. If an uplift is required, it is unclear how the implied effective interest rate on the GORTO element in a hybrid arrangement is determined as example 8 ignores this.

10. Do you have any comments regarding the recognition and measurement of upgrades or replacement of major components of a service concession asset? If so, please provide your views, relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting.

Refer also to response to question 16

11. Do you have any comments regarding how contract modifications should be accounted for under AASB 1059? If so, please provide your views, relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting.

Contract modifications

We recommend that AASB 1059 includes guidance on how modifications of service concession arrangements should be accounted for.

AASB 1059 Example 6 sets out how to account for the replacement of a major component of a SCA (road resurfacing) where it is contemplated as part of the original arrangement and the compensation to the operator for this service is included in the predetermined series of payments the operator has the right to earn. Under Example 6, the grantor recognises a SCA

and related liability when the resurfacing occurs. This financial liability is subsequently measured at amortised cost using the original effective interest rate (EIR) calculated using the predetermined series of payments that already included the payment for resurfacing.

AASB 1059 is silent on how major upgrades or replacements of assets should be accounted for when they are not contemplated as part of the original arrangement. It also does not address situations where the contract between the operator and grantor are modified such that an additional asset or service is provided by the operator or such that the period of the concession is increased or decreased.

Sometimes, grantors have difficulty obtaining information from operators about costs of SCAs upgrades not covered by original arrangements. We would recommend allowing use of a pragmatic simplified approach considering these data constrains to determine increases in fair value of SCAs.

Under the financial liability model, AASB 1059 prescribes the application of AASB 9 to the subsequent measurement of the financial liability. Therefore, where there are contract modifications that result in changes to cash flows under the arrangement the grantor will need assess the modification under AASB 9. This can result in a reset of the EIR and recognition of gains/losses that are not reflective of the economics of the arrangement.

Accounting treatment of service concession modifications could be developed for financial liability, GORTO and hybrid arrangements for a number of scenarios such as:

- Asset additions included in the original contract – already included in estimated cash flows of original service concession liability
- Contract modifications that result in an additional asset or service (the asset must be identifiable as a separate component; the change is not contemplated in the original agreement; the cash flows can be allocated to the additional asset/service)
- Contract modifications of service concessions with no additional asset or service being recognised, or where it is unclear how cash flows should be allocated.

The lease modification requirements in AASB 16 *Leases* and contract modification requirements in AASB 15 *Revenue from Contracts with Customers* could be a useful basis to formulate the accounting requirements for service concession modifications.

12. Are there any other comments regarding the AASB 1059 recognition and measurement requirements for service concession assets that you think the AASB should consider?

Timing of reclassifying grantor contributed Assets Under Construction (AUC)

HoTARAC would welcome additional guidance on when grantor contributed and/or constructed assets should be reclassified from PPE AUC to SCA-AUC? For example, should it be the date when the operator starts providing services with the asset or any other date? Arguably, this date should correlate with the date when the control criterion in AASB 1059 is satisfied or with the date on which the operator has access to the underlying existing asset to be able to provide the agreed public service.

How to account for increases in construction costs which are not passed on to the grantor

In some instances, some SCA construction costs not envisaged in the contract price are absorbed by the operator (e.g. the operator under-priced the contract or the cost of materials has increased since the arrangement was entered into), therefore the costs are not passed on to the grantor. However, where these costs form part of the asset's CRC, should these costs be considered as an asset valuation adjustment to the asset revaluation reserve or should they impact the underlying GORTO liability in a GORTO or hybrid arrangement?

Service concession liabilities

ITC49:
"Some stakeholders have commented that there are challenges in measuring financial liabilities in service concession arrangements involving variable or contingent consideration or minimum guarantee payments, where the grantor pays any shortfall between the amounts received by the operator from users of the asset and the contracted minimum consideration for the operator. In such a situation, it is unclear whether the grantor is required to recognise:
(a) a financial liability for the present value of the minimum guaranteed amounts over the term of the arrangement; or
(b) a provision under AASB 137 Provisions, Contingent Liabilities and Contingent Assets for the expected shortfalls in the revenue received by the operator from the users.

The GORTO liability is required to be amortised according to the 'economic substance of the arrangement'.
Some stakeholders commented that it is unclear whether the economic substance of the arrangement refers to:
(a) how access to the service concession asset is provided to the operator over the arrangement term, as in AASB 1059 paragraph B71. In this case, the GORTO liability would be amortised on a straight-line basis when the access to the asset is provided uniformly over the arrangement term; or
(b) the basis on which the operator can charge users of the service concession asset, which might not be uniform over the arrangement term, thereby making the use of a straight line amortisation of the GORTO liability inappropriate.

Some stakeholders also commented that they have experienced anomalous outcomes when applying the requirements in paragraphs 11 and 12 of AASB 1059 in initially measuring a partly completed service concession asset. Stakeholders provided the following examples: (a) for an arrangement involving a financial liability, there could be situations where the grantor's contractual obligations measured under AASB 9 are greater than the CRC of the partly completed asset, resulting in a negative impact on the statement of financial position in the periods when the asset is under construction; and
(b) AASB 1059 does not specify whether (and if so, how) the liability is required to be adjusted when the asset construction is completed to reflect the same amount as the CRC of the completed asset. For an arrangement involving a GORTO liability, if the GORTO liability is not adjusted, the subsequent revenue recognition (and reduction of the GORTO liability) is

likely to be significantly lower than the depreciation of the asset, resulting in an ongoing negative impact on the statement of profit or loss."

13. Do you have comments regarding the application of the requirements in paragraphs 11 and 12 of AASB 1059 to initially measure the liability at the same amount as the service concession asset, subject to certain adjustments? If so, please provide your views on those requirements, relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting.

Please refer to response to questions 9.

14. In addition, do you have comments regarding the application of AASB 1059 requirements to initially recognise a partly completed service concession asset (or asset under construction) and associated liabilities? If so, please provide your views on those requirements, relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting.

Please refer to response to questions 9.

15. Do you have comments regarding the subsequent measurement requirements for financial liabilities? If so, please provide your views, relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting.

HoTARAC seeks clarification on variable compensation in a service concession arrangement when, for example, the grantor is only required to pay the residual amounts (a shortfall) after operator collects monies from customers. Should the liability be accounted under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* or AASB 9 *Financial Instruments*?

Refer also to our comments in response to question 9.

16. Do you have comments regarding the initial and subsequent measurement, including amortisation, of GORTO liabilities? If so, please provide your views, relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting.

Understanding the "economic substance" of the arrangement

Regarding:

"The GORTO liability is required to be amortised according to the 'economic substance of the arrangement'.

Some stakeholders commented that it is unclear whether the economic substance of the arrangement refers to:

(a) how access to the service concession asset is provided to the operator over the arrangement term, as in AASB 1059 paragraph B71. In this case, the GORTO liability would be amortised on a straight-line basis when the access to the asset is provided uniformly over the arrangement term; or
(b) the basis on which the operator can charge users of the service concession asset, which might not be uniform over the arrangement term, thereby making the use of a straight line amortisation of the GORTO liability inappropriate.:

It is HoTARAC's view that recognising revenue according to the economic substance would usually be in accordance with how access to the asset is provided to the operator. As such the straight-line method would be appropriate in most cases. IN addition, the approach suggested in point (b) above is practically harder to implement.

Amortisation of GORTO liabilities related to replacement of major components
One HoTARAC member raised that amortisation of GORTO liabilities relating to replaced components does not seem to take into account the expected life or replacement frequency of the component (refer to Illustrative Example 7 in AASB 1059) and recommends the AASB provide guidance on how to account for such a situation.

For example, there is a 30-year service concession and a particular component of the SCA is replaced every 5 years. Our understanding is the amortisation of the GORTO liability relating to this component will be as follows –

- The initial component installed during construction is amortised over 30 years,
- The 1st replacement at start of year 6 is amortised over 25 years,
- The 2nd replacement at start of year 11 is amortised over 20 years,
- The 3rd replacement at start of year 15 is amortised over 15 years, etc…

This results in more and more revenue recognised in the later years. The financial statement impact can potentially be material, where the grantor has major components requiring replacement multiple times over the course of the service concession.

One of the options to resolve this issue would be amortisation of the GORTO liability relating to this component over 5 years each time it is replaced, aligning with asset depreciation principles. However, this would require componentising the GORTO liability, and brings about an additional cost burden.

Refer also to Appendix A which sets out one HoTARAC members dissenting view.

17. Are there any other comments regarding the AASB 1059 recognition and measurement requirements for liabilities of a service concession arrangement that you think the AASB should consider?

HoTARAC believes that more guidance would be advisable for distinguishing financial liability and GORTO. For example, there may be an arrangement structured in a way that the grantor acts as an agent collecting revenue from third party users for the operator and this raises the question whether the grantor should recognise financial liability or GORTO liability.

In our view, the following question should be considered to make an assessment whether the grantor's liability is financial liability or GORTO:

- Is it the grantor or the operator who bears the economic risks when there is toll evasion, fee disputes, unplanned service disruption, etc?

If the grantor bears these risks, the grantor may need to recognise a financial liability based on expected third party usage. It would be up to the grantor to ensure it collects all the revenue from third parties to cover its payments to the operator.

If the grantor does not bear the risks and simply remits what it collected to the operator, it could be a GORTO liability instead.

Topic 5: Other matters

18. Do you have any comments regarding the disclosure requirements in AASB 1059 (paragraphs 28 and 29), which cover both qualitative and quantitative information about a grantor's service concession arrangements? If so, please provide your views on those requirements and their significance.

19. Do you have any comments regarding the Implementation Guidance and Illustrative Examples that accompany AASB 1059? If so, please provide your views and any suggested amendments.

Provided above.

20. Are there any other matters that the AASB should consider as part of this PIR? If so, please explain those matters and why they should be considered, and provide examples to illustrate your response. For example, in your view are there new or emerging arrangements for which it is difficult to determine whether they are within the scope of AASB 1059 or for which service concession accounting might not be suitable?

AASB General Matters for Comment In addition to the specific matters for comment on each topic, the AASB would also particularly value comments on the following:

21. Does the application of AASB 1059 adversely affect any regulatory requirements for grantors?

No regulatory issues identified.

22. Does the application of AASB 1059 result in major auditing or assurance challenges?

This submission indicates that there were significant challenges of judgment in accounting and auditing of service concession arrangements.

The other observation is that AASB 1059 increases the number of judgements made by preparers and auditors, therefore increasing audit challenges.

23. Overall, does AASB 1059 result in financial statements that are more useful to users of public sector grantors' financial statements?

Generally, agree.

Refer to the comments to question 12. One of the HoTARAC members does not think that recognition of GORTO arrangements on balance sheet makes the financial statements more useful to users. They are of the view that it artificially inflates the State's assets and liabilities and detracts from economic substance – in their view it is hard to substantiate a 'present obligation' for the GORTO liability and it has limitations being construed as genuine "revenue" – consequently, experienced users are having difficulties making sense of this liability and what it actually means. Refer to Appendix A for more explanation.

24. In your view, do the benefits of applying the requirements of AASB 1059 exceed the implementation and ongoing application costs?

Generally, agree. AASB 1059 helped achieve consistency in the accounting for service concession arrangements, pending areas where further guidance is requested as part of this submission. However, one of the HoTARAC members considers the benefits of the standard as it stands do not exceed the implementation and application costs (including additional costs of asset valuation, GFS differences and user confusion around what SCAs/liabilities mean/represent). For financial liability SCAs, the additional guidance is welcome but it did not result in significantly different accounting treatments from what had been adopted pre-AASB 1059.

Appendix A – Dissenting View

In addition to the comments in the main part of this submission, one of the HoTARAC members raised the following three issues.

Grantor's control of the asset

(i) Fundamentally, the concept of control in AASB 1059 differs from the concept of control in AASB 10 *Consolidated Financial Statements*. This is where many AASB 1059 issues for GORTO arrangements have their root. The outcome of AASB 1059 is that both parties (the grantor and the operator) effectively control the same asset, both entities recognise the asset in their financial statements, but there is only one set of economic benefits being derived and accruing to one entity.

(ii) The wording of AASB 1059.5(a).

a. It takes a black and white (or "in/out") approach to control rather than looking at the extent (or whether "enough" substantive control resides with the grantor).

b. Use of the terminology "controls or regulates" in AASB 1059.5(a) is a contributory factor to this – because one can regulate an activity or entity without controlling it. This is particularly the case in a long term GORTO arrangement (such as a toll road) where the grantor does not benefit economically from the asset during the service concession period.

This HoTARAC member suggests that the AASB re-examines the distinction between "control" and "regulate" in their post implementation review process. There are some arrangements that can be regulated but the level of regulation does not give economic control to the grantor during a service concession period, even if the asset returns to the government at the end of the service concession term.

Recognition of GORTO arrangements

The HoTARAC member suggests that the AASB reconsider whether long-lived GORTO arrangements should be recognised on the balance sheet.

They remain concerned with the economic substance of the argument that the State exercises genuine substantive "control" over most, if not all, of their material GORTO arrangements (especially with regards to toll roads). They continue to question the rationale for the underlying physical asset (e.g. road) and rights associated with that asset (e.g. tolling rights) to be separated and recognised by two different entities – when, in substance, it is the same asset that is being accounted for twice by two different entities.

Related to this is the fact that the ABS ignores or makes adjustments for GORTO assets and liabilities in their analysis.

They are of the view that for a GORTO arrangement, alternative options that would achieve the objective of meeting users' information needs at a much lower cost include:

(i) recognise the residual interest in the asset through gradual accretion over the term of the arrangement, or

(ii) Recognise the asset at its fair value when the asset returns to "control" of the State (applying control concepts similar to AASB 10 and for other assets), or

(iii) Disclosure only for GORTO arrangements using a combination of qualitative and quantitative disclosures instead of recognition in financial statements.