



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

via submission portal: <https://www.aasb.gov.au/current-projects/open-for-comment/>

27 February 2023

Dear Sirs,

RE: AASB Invitation to Comment ITC 49 *Post-implementation Review of AASB 1059 Service Concession Arrangements: Grantors (ITC 49)*

I am responding to your invitation to comment on the Post-implementation Review of AASB 1059 on behalf of PwC.

We welcome the Board seeking feedback in relation to the application of AASB 1059 *Service Concession Arrangements: Grantors*. Having worked with a number of clients in this area, we highlight the following key areas where enhancements may be made to enable more consistent application:

- providing further indicators to support preparers in identifying whether the arrangement is in scope of AASB 1059 and
- clarifying the measurement of the GORTO liability for service concession assets under construction.

We also consider that the requirement to use current replacement cost to measure the fair value of service concession assets (SCA) should be a presumption that could be rebutted in certain situations.

Detailed feedback on these issues and recommendations of how they might be addressed are in the Appendix to this letter.

While we have just highlighted our more significant observations in this letter, we will organise a call to discuss our more detailed comments and further explain any questions you may have.

Yours sincerely,

A handwritten signature in black ink that reads 'Erin Craike'.

Erin Craike
Partner

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo NSW 2000, GPO BOX 2650 Sydney NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.



Appendix

Is an arrangement in the scope of AASB 1059?

Topic 1: Public Service

We do see diversity in practice in relation to assessing whether a transaction is in the scope of the standard in the following areas:

- Operator involvement in the management of the asset -- An example of where we see challenges in this assessment is where maintenance for an asset is essential to the provision of a service (such as, for trains). Preparers may take analogy to Example 2(a) where facility maintenance is not considered to represent a significant component of the provision of the public service. We do not consider this to always be appropriate.
- Identifying whether an asset provides public service -- We have also seen diversity arise in this assessment where assets subject to the arrangement have a commingled public service (i.e., provision of cultural experiences that provide benefits to the local economy) and commercial purpose. Examples may include stadiums, assets related to the arts, universities, zoos, convention centres, and student accommodation. In practice, many consider these are not public services. However, we do not consider this to always be appropriate, depending on the circumstances.

We acknowledge that it is difficult to strictly define a public service and that there will often be significant judgement involved in making assessment. However, additional indicators may be provided to encourage more consistent application. Indicators are often more helpful than examples to ensure that inappropriate analogies are not made (i.e., always considering maintenance to be an ancillary service even where it is essential, always considering student accommodation to be a public service even though there are cases where it may be largely used by foreign fee paying students). As in other areas of Australian Accounting standards, we would expect the indicators to be considered collectively with no single indicator necessarily leading one to conclude that an arrangement is either within or out of scope of AASB 1059.

Collective indicators are used in the public sector specific guidance for AASB 17 to help assess whether an arrangement gives rise to insurance contracts that fall within the scope of AASB 17. This approach is quite helpful in providing direction to preparers in assessing their facts and circumstances. If particular indicators are considered more or less important, a ranking such as that used in Appendix E of AASB 2022-9, which distinguishes between pre-requisites, indicators and other considerations, could also be introduced. Primary and secondary indicators in AASB 121 are also useful to help preparers prioritise those indicators that are most important.

While the application guidance in Appendix B of AASB 1059 provides features of a service concession arrangement, we consider this guidance could be compiled into a list of indicators to be assessed collectively. Using the existing discussion in Appendix B as a starting point, potential indicators to assess whether the service provided is a 'public service' could include:



- Are the services provided by the asset necessary or essential to the general public? (AASB 1059, par. B6)
- Are the services generally expected to be provided by a public sector entity? (AASB 1059, par. B6)
- Would the government be required to step in if the services were not provided by private sector entities?
- Does the asset provide other (eg, unrelated) services, and, if yes, how significant are these services to the arrangement? (AASB 1059, par. B6)
- In the case of a secondary asset, is the asset constructed at the same time and will the asset be mainly used to complement the primary asset, i.e., to provide ancillary services? (AASB 1059, par. B7) Are the profits of the secondary asset being used to subsidise the cost of the public service provided by the primary asset?
- Are the services used wholly internally by a public sector entity for the purpose of assisting the public sector in delivering public services to domestic residents/citizens? (AASB 1059, par B8)
- To what extent is the asset used for commercial purposes (for example, would it be uneconomic for a private sector to provide those services at the prices that can be charged to the public)?
- Does the grantor subsidise the running cost of the asset in any form (for example, via the provision of land or other assets at no charge) and why?

Similarly, indicators could also be used to assess whether the operator manages at least some of the services at their own discretion. We consider that the following indicators may be useful:

- Do the operator's actions directly affect the public service that is being provided by the asset (for example, the actual running and/or scheduling of a hospital where the public service is the provision of hospital services, the scheduling of maintenance of transport or roads which directly impacts when the public service may be disrupted) or is there only an indirect impact (for example, providing building maintenance and security services to the hospital)? (AASB 1059, par. B10)
- How much discretion does the operator have over the services they provide and how many of the services to be provided are predetermined in the arrangement? For example, if the agreement specifies how often and when the operator must undertake specific maintenance activities, regardless of the state of the asset, the operator has little or no discretion to manage the relevant activities.
- What is the estimated cost/magnitude of the service being provided by the operator as compared to the total costs/magnitude of operating the asset?

Topic 3: Public sector operator

ITC 49 seeks feedback as to whether AASB 1059 should apply to public-to-public arrangements and acknowledge this issue has come up in practice. We agree that this is an area of diversity and are of the view that if sound indicators are provided, AASB 1059 should apply to public-to-public arrangements. In particular, we consider that application in public-to-public arrangements is important where the entities involved in the arrangement operate in different sectors or are GGS entities.

Requirement to use Current Replacement Cost (CRC)



Topic 4A: Recognition and measurement of service concession assets

While CRC generally leads to an appropriate outcome (in particular for new construction), there are instances where other valuation methodologies may be equally appropriate and of lower cost to preparers. For example, for-profit public sector entities more commonly use income-based valuation techniques to measure the value of assets (particularly in regulated utility businesses where a service concession asset forms part of a cash generating unit that is measured using the income approach). Because income-based valuation techniques are acceptable under AASB 13, we consider that this approach should also be acceptable under AASB 1059. As such, we would recommend a presumption that CRC is most appropriate, but acknowledges that other methodologies may be acceptable either generally, or at least in certain circumstances.

Measurement of Gorto Liabilities for Assets under Construction

Topic 4B: Recognition and measurement of liabilities in service concession arrangements

Based on our experience, service concession assets (SCA) under construction are generally revalued to fair value which results in borrowing costs (or implied funding costs) being included in the measurement of the current replacement cost (as accepted under AASB 13). Following the guidance in AASB 116, this revaluation is recognised in a revaluation reserve in equity. However, there is diversity in practice with respect to the measurement of the GORTO liability.

In some cases, preparers have interpreted AASB 1059, par. 12 to mean that the GORTO liability should be measured at the initial fair value of the SCA but that the GORTO liability should not be subsequently remeasured for changes in the fair value of the SCA during the construction phase. Neither the core guidance in the standard in paragraphs 11-12 nor paragraphs B70-B72 refer to such a remeasurement. In other cases, preparers have looked to Illustrative Example 7 to remeasure the GORTO liability during construction for capital expenditure and imputed funding cost. This remeasurement is also recognised in the asset revaluation reserve, offsetting that recognised for the SCA. Remeasurement of the GORTO liability ensures that it equates to the CRC of the SCA at the end of the construction period.

We understand the principle of the standard to be that the operator provides the fair value of the SCA to the grantor in exchange for the right to construct/operate/maintain the asset. The grantor's liability is to be measured at the fair value of the SCA, as that is the asset being received by the grantor in exchange for providing the rights to the operator per paragraph 12. As such, in our view, at the end of construction, the SCA should equal the liability. We also consider that AASB 116 should be followed with respect to remeasurement of the asset. As such, the standard should be clarified to be clear as to how the GORTO liability should be measured subsequent to initial recognition during the construction period.