

FAQ – How does AASB 1059 Service Concession Arrangements impact my budget control limits and Government debt?

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You will need to include existing and future approved service concession arrangements in your budget estimates which will result in changes to your budget control limits.

This guidance is general in nature - Service Concession Arrangements are complex and will need to be considered on a case by case basis. **If you have any questions regarding budget controls** or the impact of AASB 1059 on your budget controls, please contact [AgencyInfo](#) and identify which budget controls your question relates to. If you have any questions about accounting standards or service concession generally, please contact the [Accounting Policy Team](#).

<b>New accounting from 1 July 2020</b> (assuming within scope of AASB 1059)	<u>Net Cost of Services<sup>1</sup></u> (NCOS)	<u>Capital Expenditure Authorisation</u> <u>Limits<sup>2</sup></u> (CEAL)	<u>Government Debt<sup>3</sup></u>
<p><b>SCA – Financial Liability model</b></p> <p>DR PPE - Service Concession Asset                      Cr Service Concession Financial Liability  <i>Recognition over the construction period or at commencement of the arrangement</i></p> <p>Dr Depreciation Expense                      Cr PPE – Service Concession Asset                      (accumulated depreciation)  <i>Depreciation over useful life of the asset</i></p> <p>Dr Interest expense                      Cr Service Concession Financial Liability  <i>Interest expense over the term of the financial liability</i></p>	<p>All expenses contribute to the NCOS when incurred, including:</p> <ul style="list-style-type: none"> <li>• Depreciation expenses; and</li> <li>• Interest expenses</li> </ul>	<p><u>On transition to AASB 1059</u>                      Reclassification of existing PPE assets already on balance sheet to “PPE – SCAs” as a result of implementing AASB 1059 will <u>not</u> be CAPEX and are therefore <u>not</u> within your CEAL (as these have previously been recognised as CAPEX already)</p> <p><u>Ongoing application of AASB 1059</u>                      New financial liability model service concession assets to be brought on balance sheet will contribute to CAPEX when they are recognised and are therefore within your CEAL. This is because the financial liability recognised will impact the Net Lending Result.</p>	<p>Financial Liability contributes to borrowings and therefore impacts Government debt</p>

<sup>1</sup> Net Cost of Services (NCOS) = Expenses less Revenue and gains/(losses)

<sup>2</sup> Capital Expenditure Authorisation Limits (CEAL) = The capital expenditure authorisation limits are an accrual-based measure to ensure that agency-based controls are broadly consistent with the accrual based Net Lending Result

<sup>3</sup> Government Debt represents ‘borrowings’ on the State’s balance sheet and is included in the credit ratings agencies assessment of State debt levels

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<p><b>SCA – GORTO<sup>4</sup> model</b></p> <p>DR PPE - Service Concession Asset                      Cr Service Concession GORTO Liability  <i>Recognition over the construction period or at commencement of the arrangement</i></p> <p>Dr Depreciation Expense                      Cr PPE – Service Concession Asset                      (accumulated depreciation)  <i>Depreciation over useful life of the asset</i></p> <p>Dr Service Concession GORTO Liability                      Cr Revenue from Service Concession  <i>Unwinding GORTO liability over concession period</i></p>	<p>All revenues and expenses contribute to the NCOS when earned or incurred, including:</p> <ul style="list-style-type: none"> <li>• Revenue from unwinding GORTO Liability; and</li> <li>• Depreciation expenses</li> </ul>	<p><u>On transition to AASB 1059</u>                      Service concession assets recognised under the GORTO model as a result of implementing AASB 1059 will <u>not</u> be CAPEX and are therefore <u>not</u> within your CEAL. This is because the GORTO liability does not contribute to the Net Lending Result.</p> <p><u>Ongoing application of AASB 1059</u>                      New service concession assets under the GORTO model will <u>not</u> contribute to CAPEX and are therefore <u>not</u> within your CEAL. This is because the GORTO liability does not contribute to the Net Lending Result.</p>	<p>GORTO Liability does <u>not</u> contribute to borrowings and therefore does <u>not</u> impact Government debt</p>

<sup>4</sup> GORTO = “grant of a right to the operator” i.e. where the grantor does not have a contractual obligation to pay cash to the operator, and instead grants the operator of the service concession arrangement the right to earn revenue by charging third-party users. For example, where the operator of a toll road is given the right to toll users of the road

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<p><b>SCA – Hybrid<sup>5</sup> model</b></p> <p>DR PPE - Service Concession Asset                      Cr Service Concession Financial Liability                      Cr Service Concession GORTO Liability  <i>Recognition over the construction period or at commencement of the arrangement</i></p> <p>Dr Depreciation Expense                      Cr PPE - Service Concession Asset (accumulated depreciation)  <i>Depreciation over useful of the asset</i></p> <p>Dr Interest expense                      Cr Service Concession Financial Liability  <i>Interest expense over the term of the financial liability</i></p> <p>Dr Service Concession GORTO Liability                      Cr Revenue from Service Concession  <i>Unwinding GORTO liability over concession period</i></p>	<p>All revenues and expenses contribute to the NCOS when earned or incurred, including:</p> <ul style="list-style-type: none"> <li>• Revenue from unwinding GORTO Liability</li> <li>• Depreciation expenses; and</li> <li>• Interest expenses</li> </ul>	<p><u>On transition to AASB 1059</u>                      Reclassification of existing PPE assets already on balance sheet as PPE – SCAs as a result of implementing AASB 1059 will <u>not</u> be CAPEX and are therefore <u>not</u> within your CEAL (as these have previously been recognised as CAPEX already)</p> <p>Service concession assets under the GORTO model recognised as a result of implementing AASB 1059 will <u>not</u> be CAPEX and are therefore <u>not</u> within your CEAL. This is because the GORTO liability does not contribute to the Net Lending Result.</p> <p><u>Ongoing application of AASB 1059</u>                      New service concession assets will contribute to CAPEX when they are recognised, to the extent that they impact net lending (i.e. the financial liability portion only) and are therefore within your CEAL.</p>	<p>Financial Liability component contributes to borrowings and therefore impacts Government debt</p> <p>GORTO Liability component does not contribute to borrowings and therefore does <u>not</u> impact Government debt</p>

<sup>5</sup> Hybrid = an arrangement that gives rise to both a financial liability and a GORTO liability