

FAQ – How do you identify separate service concession assets within a service concession arrangement?

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AASB 1059 *Service Concession Arrangements: Grantors* (AASB 1059) applies to service concession arrangements, which involve an operator providing public services **related to a service concession asset** on behalf of a grantor¹.

It is practical to identify separate service concession assets within a service concession arrangement, prior to assessing the following:

1. Does the asset(s) provide a public service?
2. Do we control the service concession asset(s)?

The assessment of whether a grantor should recognise a service concession asset is made on an asset by asset basis. An individual service concession arrangement may involve multiple assets, therefore it is important to first identify the individual assets to be assessed.

AASB 1059 application guidance states that grantors should separately assess assets that are:

- Physically separable;
- Capable of being operated independently; and
- Meet the definition of a cash-generating unit under AASB 136 *Impairment of Assets*. That is, capable of generating independent cash inflows.

An example is as follows:

The shared wing of a hospital can be considered physically separable from the private and public wings of the hospital because it is a separate defined space or building. A shared wing of the hospital could also be able to be operated independently of the private and public wings of the hospital because the services provided do not rely on the other parts of the hospital. The shared wing can also derive independent cash inflows from the patients for the services provided, as the services provided can be independent of charges related to the private and public wings of the hospital.

What is a cash-generating unit (“CGU”)?

“A cash-generating unit is the **smallest identifiable group of assets** that generates cash **inflows** that are largely independent of the cash inflows from other assets or groups of assets.²”

Lowest aggregation of assets

- The group of assets should be as small as reasonably practicable that generates largely independent cash inflows³.

Cash inflows

- For the purposes of identifying a CGU, an agency should focus on cash **inflows** even though there may be information available in relation to net cashflows or cash expenditure related to the assets.

What if the arrangement has assets that are a subset of existing systems assets and/or infrastructure assets that are part of a larger network?

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When an agency is assessing CGUs, it should be looking at cash inflows generated by the assets identified in the arrangement only. The cash inflows generated by these assets are typically collected by the operator rather than the grantor.

For the purposes of assessing impairment of assets under AASB 136 Impairment of Assets, the grantor may have identified a larger CGU which includes the assets from the service concession arrangement. However, for the purposes of identifying assets under AASB 1059, only the assets within the arrangement and associated cash inflows should be taken into consideration. For example, the government may identify an entire water treatment and distribution network as a single CGU for the purposes of impairment, based on the cash inflows the government receives. However, that government may enter into an arrangement with a private sector entity to operate a subset of the network assets. For the purposes of AASB 1059, only that subset of assets within the arrangement with the operator needs to be considered in determining whether it, or an even smaller subset comprise a CGU.

What do I do with the separate assets?

Once the separate assets are identified, Agencies can then make an assessment of whether the individual assets are:

- Providing public services
- Controlled by the grantor

The control assessment will consider whether the assets provide regulated, unregulated, or partially regulated activities.

Other considerations:

Where you have determined that some or all assets within an arrangement are not within the scope of AASB 1059, please also refer to **FAQ – What do I do if an arrangement (or part of an arrangement) is out of scope for AASB 1059?**

Where you have determined that some or all assets within an arrangement provide both regulated and unregulated services, please refer to **FAQ (Coming soon) – How to determine if the grantor controls a partly regulated asset?**

¹ AASB 1059.2 “This Standard shall be applied to service concession arrangements, which involve an operator: (a) providing public services related to a service concession asset on behalf of a grantor.”

² AASB 136.6 “A *cash-generating unit* is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.”

³ AASB 136.68 “an asset’s cash-generating unit is the smallest group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Identification of an asset’s cash-generating unit involves judgement. If recoverable amount cannot be determined for an individual asset, an entity identifies the lowest aggregation of assets that generate largely independent cash inflows.”