

FAQ – How do I measure land in a Service Concession Arrangement?

How should land be measured when applying the cost approach to fair value?

The standard mandates the measurement of a service concession asset at current replacement cost in accordance with the cost approach to measuring fair value in AASB 13 *Fair Value Measurement* (AASB 13). The cost approach reflects the amount that would be required currently to replace the service capacity of an asset i.e. the cost of a buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence.

The cost approach to measuring fair value is not typically applied to land assets not in scope of AASB 1059 *Service Concession Arrangements: Grantors* (AASB 1059). When reclassifying any existing land assets as part of a service concession arrangement, agencies will be required to use the cost approach to measuring the fair value of that land. It is likely agencies currently measure this land using the market or income approach.

It is considered the **market approach is consistent with the current replacement cost approach to land measurement**, as the market approach represents the amount a buyer would pay, in the market, to replace the service potential of the asset.

A valuer would consider the service capacity limitations of the asset when determining the replacement cost of the land (restrictions on sale/use e.g. zoning). A valuer would also consider these same asset characteristics when applying a market or income approach valuation technique.

Ultimately, a cost approach to land fundamentally applies the same AASB 13 and valuation framework principles and concepts that equally apply to a market approach valuation of land (characteristics of the asset, highest & best use, valuation premise etc). This is demonstrated in the summary diagram contained in Appendix A.

Should land in, or associated with, a service concession arrangement be recognised as part of the service concession asset?

The assessment of whether a grantor should recognise land as part of the service concession asset is made on the same basis as any other asset in a service concession arrangement. The land under or surrounding the infrastructure or asset used by the operator that is considered a service concession asset would apply the same recognition criteria as the infrastructure or asset itself.

Indicators that land is part of the service concession asset:

- Does the arrangement or contract include land?
Where land is contemplated in an overall service concession contract, this provides a clear indication that the land should be assessed to determine whether it is also a service concession asset.
- Do other 'linked' arrangements or contracts exist that provide the operator with access to and use of the land?
Where land is not contemplated in an overall service concession contract, consideration must be given to whether other arrangements or contracts exist that provide the operator with access to and use of land for the purposes of the service concession arrangement i.e. contracts or transactions undertaken alongside the service concession arrangement and

therefore linked to the service concession arrangement itself, for example a lease that provides the operator with access to and use of the land, entered into at the same time and for the same period as the service concession period.

- Is the land integral to delivery of the public service provided using the service concession asset?

If the land associated with the service concession arrangement is integral to the delivery of the public service this would indicate that both the asset and the land would be treated as a single unit of account¹ and recognised as the primary service concession asset. It is necessary to consider whether the land asset is physically separable, capable of being operated independently, capable of being traded separately and whether it forms part of a cash-generating unit². It is also necessary to consider the control criteria within AASB 1059³, for example where the grantor's rights/residual interest over the land differ to the other assets within the service concession arrangement, this may result in a different outcome as to whether the land is included in the service concession asset.

- Is the land, or a portion of the land, part of a separate cash-generating unit?

Consideration should be given to whether land that supports the delivery of public services by the operator also provides its own separate economic benefits or service potential, if so a portion of the land may be used (and therefore recognised) as part of the service concession arrangement and a portion of the land not be considered part of the service concession arrangement.

Individual service concession arrangement fact patterns must be assessed. For further guidance refer to published [FAQ – How do you identify separate service concession assets within a service concession arrangement?](#)

¹ Unit of account is the level at which an asset or liability aggregated or disaggregated in a Standard for recognition purposes. AASB 1059.BC53 states that the unit of account is the entire service concession asset, not just the residual interest after the service concession arrangement ends

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 1059.5 The grantor controls the asset if, and only if:

(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 – through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the term of the arrangement.

Appendix A

Summary of Cost and Market Approaches to Valuation of Land

