

FAQ – How to determine if an asset is used to provide public services for the purposes of AASB 1059, when that asset provides public and non-public services?

Agencies will apply AASB 1059 *Service Concession Arrangements: Grantors* (AASB 1059) to service concession arrangements, which involve an operator “providing **public services** related to a service concession asset on behalf of a grantor”¹.

Assessing whether an asset provides public services requires judgement, taking into account the **nature** and relative **significance** of each of the services provided.

An agency should apply the guidance in TPP 19-06 Policy and Guidelines Paper – *AASB 1059 Service Concession Arrangements: Grantors Scoping* (TPP 19-06) to assist in their assessment of whether an asset provides a public service:

Steps in assessing whether an asset provides a public service	Reference
1. Identify the asset.	<ul style="list-style-type: none"> • TPP 19-06 (Section 1.1) • FAQ – How do you identify separate service concession assets within a service concession arrangement?
2. Identify the services provided by the asset.	<ul style="list-style-type: none"> • TPP 19-06 (Section 1.2)
3. Identify whether the services provided are primary or ancillary.	<ul style="list-style-type: none"> • TPP 19-06 (Section 1.3) <p><u>Primary services:</u> Services which are identified as being provided by the asset, and which are significant to the arrangement as a whole.</p> <p><u>Ancillary services:</u> Services which are identified as being provided by the asset, and which are insignificant to the arrangement as a whole.</p> <p>Guidance to assist agencies in assessing ‘significance’ are provided below in this FAQ</p>
4. Assess whether the primary service is a public or non-public service.	<ul style="list-style-type: none"> • TPP 19-06 (Section 1.4) • Where the asset has more than one primary service, and these present a mix of public and non-public services, judgement is required to determine if the asset is providing a public service for the purposes of AASB 1059. <p>Further guidance is provided below in this FAQ.</p>

Identifying primary services provided by an asset - when are services significant?

AASB 1059 does not provide a “bright-line” in determining whether a service is significant. Factors to consider, individually or in combination, in determining whether a service is significant, include but are not limited to:

¹ AASB 1059.2

- 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 other services 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 other services provided under the arrangement;
- Physical apportionment of the asset between different services.

Significant²

The term ‘significant’ is not specifically defined within the standard. It is important to take into consideration the substance of the whole arrangement in determining whether the services provided by an asset are significant. The nature and relative significance of each component of the arrangement and the services provided should be considered carefully³ and applying an appropriate metric to the services provided by the asset may be useful.

What metric should be used in making the assessment?

The relevant metric to use in the assessment of whether the services are significant requires judgement and is dependent upon the nature of services being provided by the asset. The metric used should be an appropriate measure of the services provided by the asset(s) being assessed. For example, where a building is used to provide public and non-public services, an appropriate metric to measure the amount of services provided by the asset could be the square metres of the building dedicated to the public vs the non-public services, or the volume of public vs non-public services provided. Where the asset is a transport network, an appropriate metric could be the number of hours where the asset is available for public vs non-public services.

If more than one metric seems appropriate but each give you a different outcome, agencies should apply judgment as to whether one or a combination of metrics is most appropriate. If you have any questions about the appropriate metric to use or service concessions generally, please contact the [Accounting Policy Team](#).

Where an asset has more than one primary service, and these present a mix of public service(s) and non-public service(s)

AASB 1059.B6 stipulates that where an asset provided public and non-public services:

- If the **non-public** services are **insignificant** to the arrangement as a whole i.e. ancillary services, then in that case it would not affect the assessment that the asset provides public services

² AASB 1059.BC34 “The Board decided that: (b) the term ‘significant’ is used in numerous Standards without specific guidance as to what would constitute ‘significant’. The Board did not consider specific guidance on the term would be appropriate in this Standard. If the Board were to provide guidance on the term, the Board may need to refer the matter to the IASB for consideration with reference to maintaining compliance with IFRS Standards. Consideration by the IASB on this issue would most likely have implications beyond service concession arrangements.”

³ AASB 1059.B6 “Assessing whether an asset provides public services requires judgement, taking into account the nature and relative significance of each component and the services provided.”

- If the **non-public** services are **significant** to the arrangement as a whole i.e. primary services, the asset might be assessed as **not providing public services**, and therefore the arrangement would be outside the scope of AASB 1059

In summary, where an asset is providing one or more non-public service(s) that are both primary services in addition to the primary public services, judgement is required to determine whether the asset that is used to provide “public services” within the scope of AASB 1059.

Other related considerations

Reassessment triggers

An agency’s scope assessment for the purposes of AASB 1059 is not ‘set and forget’. Therefore, an agency is required to reassess its position when there is a significant modification of the terms and conditions during the term of the arrangement. Refer to **FAQ – When do I need to reassess an existing service concession arrangement (and agreements that were previously scoped out of AASB 1059)?**

Appendix - Accounting references

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; and (b) managing at least some of those services under its own discretion, rather than at the direction of the grantor.

B5 Appendix A defines a service concession asset. Examples of service concession assets include roads (and land under roads), bridges, tunnels, prisons, hospitals, airports, water distribution facilities, energy supply and telecommunication networks, permanent installations for military and other operations, registries and databases, and other tangible or intangible assets that are expected to be used during more than one reporting period in delivering public services.

Public service

B4 Appendix A defines a service concession arrangement. A feature of a service concession arrangement is the public service nature of the obligation to be undertaken by the operator in a commercial transaction. The public service nature of the services to be provided using the service concession asset is assessed irrespective of the identity of the party that operates the services. A service concession arrangement contractually obliges the operator to provide some, if not all, of the services to the public on behalf of the public sector entity. Other common features of a service concession arrangement within the scope of this Standard are: (a) the grantor is a public sector entity; (b) the operator is responsible for at least some of the management of the service concession asset and related services and does not merely act as an agent on behalf of the grantor; (c) the arrangement sets or limits the initial prices to be levied by the operator and regulates price revisions over the period of the service concession arrangement; (d) the operator is obliged to hand over the service concession asset to the grantor in a specified condition at the end of the period of the arrangement, for little or no incremental consideration, irrespective of which party initially financed it; and (e) the arrangement is governed by a contract that sets out performance standards, mechanisms for adjusting prices, and arrangements for arbitrating disputes.

Asset provides public services

B6 Assessing whether an asset provides public services requires judgement, taking into account the nature and relative significance of each component and the services provided. For example, **a courthouse building provides multiple services, such as courts, administrative offices and associated services.** However, the **primary purpose of the building is to provide court services, which are considered to be public services.** The court services are 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. The court services are accessible to the public, even if it is a subset of the community that uses the services. The **services provided by the administrative offices** may be unrelated to the court services and therefore **considered ancillary if they are insignificant** to the arrangement as a whole, and in that case would not affect the assessment that the building provides public services. However, **if the unrelated administrative services were significant to the arrangement as a whole,** the courthouse building might be assessed as not providing public services.

B7 If an arrangement provides public services principally through a primary asset, and a secondary asset is used or is mainly used to complement the primary asset, such as student accommodation for

a public university, the secondary asset would be regarded as providing public services as well. As another example, a hospital car park constructed by an operator as part of the arrangement to construct a hospital that largely provides public services would be considered part of the hospital service concession arrangement. The car park may provide limited ancillary services without affecting the assessment that the car park is used to provide public services. However, if the car park was not constructed as part of the hospital service concession arrangement (eg subsequent to the construction of the hospital or with a different party) and is largely of a commercial nature (eg car parking is available to the general public, including hospital patrons), the car park would be regarded as an asset that does not provide public services, and therefore outside the scope of this Standard.

B8 Where the services provided by an asset are used wholly internally by a public sector entity for the purpose of assisting the public sector entity to deliver public services, but managed by an external party, the arrangement is likely to be an outsourcing arrangement or a lease, rather than a service concession arrangement. For example, the provision of information technology services to a government department providing emergency services to the public is likely to be an outsourcing contract, which may contain a lease of the information technology hardware. The accompanying Implementation Guidance also illustrates common types of arrangements.

B9 For an asset to provide public services, it is not necessary for the public to have physical access to the asset. For example, a military base provides public services (defence activities) even though the public is unlikely to have physical access to the military base.