



Treasury

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**Guidance for AASB 1059 *Service Concession Arrangements: Grantors* - Application of TPP 14-01 Valuation of Physical Non-Current Assets at Fair Value to assets recognised as service concession assets**

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## Overview

AASB 1059 *Service Concession Arrangements: Grantors* (AASB 1059) is effective for financial periods commencing on or after 1 January 2020. This means it will apply for NSW Government agencies with 30 June year ends, from the 2020-21 financial year.

Physical non-current assets recognised as service concession assets under AASB 1059 will be subject to **TPP 14-01 Valuation of Physical Non-Current Assets at Fair Value** (TPP 14-01), consistent with other physical non-current assets. TPP 14-01 requires all physical non-current assets to be revalued at fair value, subsequent to initial recognition.

However, where AASB 13 *Fair Value Measurement* and TPP 14-01 permit agencies to use judgment in determining the appropriate approach to measuring fair value i.e. market, income or cost approach (AASB 13 para 62), grantors in a service concession arrangement under AASB 1059 are required to measure a service concession asset at **current replacement cost** in accordance with the cost approach to measuring fair value in AASB 13 (AASB 1059 para 7 and 9(b)).

The following guidance is provided to assist NSW public sector agencies in applying the requirements of TPP 14-01 and the AASB 13 fair value principles to service concession assets. Please note this guidance is not a substitute for the relevant accounting standards and reference should be made to the full text of the Australian Accounting Standards as well as Treasury Policy Papers TPP 14-01 and TPP 19-06 AASB 1059 *Service Concession Arrangements: Grantors* scoping.

This Guidance is applicable to all NSW public sector agencies (including Statutory State-Owned Corporations) for financial years beginning on or after 1 July 2020.

# Application of TPP 14-01 Valuation of Physical Non-Current Assets to service concession assets

## Scope of TPP 14-01

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TPP 14-01 *Valuation of Physical Non-Current Assets at Fair Value* provides requirements and guidance for valuing physical non-current assets at fair value for general purpose financial reporting, taking into account the unique circumstances of the public sector. Many assets in the public sector have few or no alternative uses, and many assets, including infrastructure assets, are highly specialised.

Under Australian Accounting Standards AASB 116 *Property, Plant and Equipment* (AASB 116) and AASB 140 *Investment Property* (AASB 140), following initial recognition assets are required to be valued at fair value or cost. AASB 13 *Fair Value Measurement* (AASB 13) sets out in a single Accounting Standard how to measure fair value and TPP 14-01 provides guidance on how to apply AASB 13 in the NSW public sector context.

**TPP 14-01 requires all physical non-current assets, including investment property, to be revalued at fair value, subsequent to initial recognition.**

This mandate for physical non-current assets be measured at fair value under AASB 116, AASB 140 and now AASB 1059, is consistent with Australian Bureau of Statistics, Government Finance Statistics (GFS) and AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

However, where AASB 13 and TPP 14-01 permit agencies to use judgment in determining the appropriate approach to measuring fair value i.e. market, income or cost approach (AASB 13 para 62), grantors in a service concession arrangement under AASB 1059 are required to measure a service concession asset at **current replacement cost** in accordance with the cost approach to measuring fair value in AASB 13 (AASB 1059 para 7 and 9(b)).

## Valuation of service concession assets

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A service concession asset discussed in this guidance is:

“An asset (other than goodwill) to which the operator has the right of access to provide public services on behalf of the grantor in a service concession arrangement that:

- (a) the operator constructs, develops, upgrades or replaces major components, or acquires from a third party or is an existing asset of the operator; or
- (b) is an existing asset of the grantor, including a previously unrecognised identifiable intangible asset and land under roads, or an upgrade to or

replacement of a major component of an existing asset of the grantor.”  
(AASB 1059 Appendix A)

AASB 1059 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. This measurement approach is required for both initial and subsequent measurement (AASB 1059 para. 7 and 9(b)).

Service concession assets are considered a subset of an existing class of assets, such as land & buildings, infrastructure etc (AASB 1059.29). Therefore, for guidance on the application of AASB 13 fair value principles to particular categories of physical non-current assets please refer to discussion in section 7 of **TPP 14-01**.

Where the grantor retains control of the asset after the end of the service concession arrangement, the fair value measurement of the asset is no longer restricted to the cost approach. However, the asset will continue to be subject to the fair value principles as required under TPP 14-01.

#### Measuring land under a service concession arrangement

For land that is not in the scope of AASB 1059, the market approach is typically used to measure fair value, rather than the cost approach (see section 7.1 of **TPP 14-01**).

However, the **market approach is consistent with the current replacement cost approach when measuring the fair value of land**. This is because the market approach represents the amount a buyer would pay, in the market, to replace the service potential of that land. A valuer will consider the service capacity limitations of the asset when determining the current replacement cost of the land, including restrictions on sale/use e.g. zoning. A valuer will consider these characteristics when applying either a market or income approach valuation technique.

Ultimately, the cost approach for 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).

For further guidance on measuring land in a Service Concession Arrangement, please refer to published **FAQ - [How do I measure land in a Service Concession Arrangement?](#)**

## **Further information and contacts**

General inquiries concerning this document should be initially directed to:

Accounting Policy and Complex Transactions Advisory, NSW Treasury;  
[AccPol@treasury.nsw.gov.au](mailto:AccPol@treasury.nsw.gov.au)

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