NSW Treasury

Guidance - Accounting for Bid Cost Contributions

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23 May 2024

Acknowledgement of Country

We acknowledge that Aboriginal and Torres Strait Islander peoples are the First Peoples and Traditional Custodians of Australia, and the oldest continuing culture in human history.

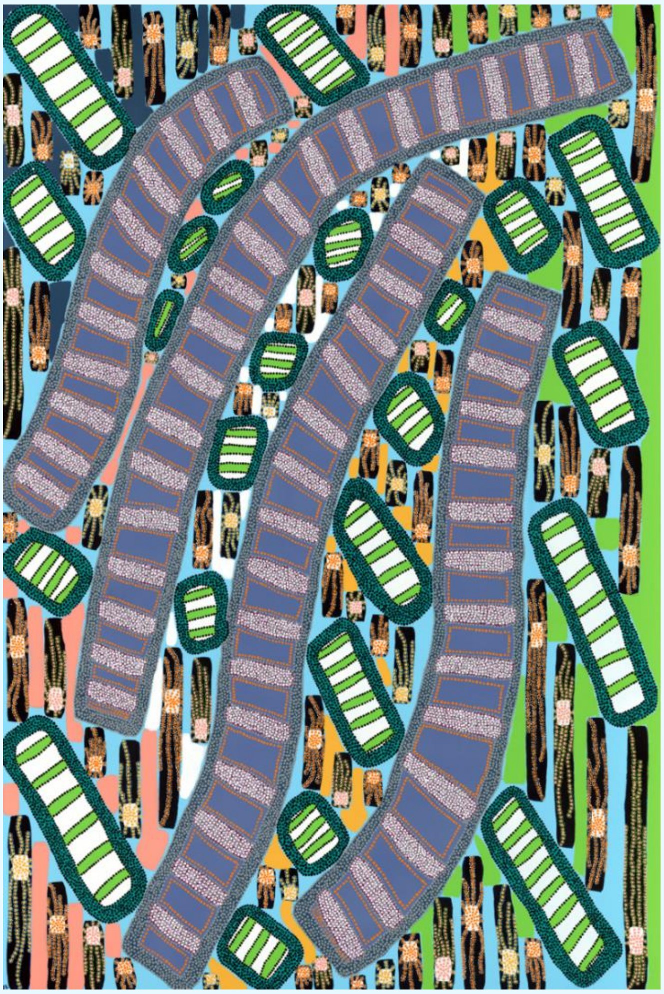
We pay respect to Elders past and present and commit to respecting the lands we walk on, and the communities we walk with.

We celebrate the deep and enduring connection of Aboriginal and Torres Strait Islander peoples to Country and acknowledge their continuing custodianship of the land, seas and sky.

We acknowledge the ongoing stewardship of Aboriginal and Torres Strait Islander peoples, and the important contribution they make to our communities and economies.

We reflect on the continuing impact of government policies and practices, and recognise our responsibility to work together with and for Aboriginal and Torres Strait Islander peoples, families and communities, towards improved economic, social and cultural outcomes.

Artwork:
Regeneration by Josie Rose



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Accounting for bid cost contributions

Purpose

The purpose of this non-mandatory guidance is to assist agencies in determining whether bid cost contributions made in relation to property, plant and equipment constructed by third parties:

- qualify for capitalisation under AASB *116 Property, Plant and Equipment* (AASB 116),
- qualify for capitalisation under another accounting standard; or
- should be expensed.

Scope

This guidance applies generally to accounting for bid cost contributions made in relation to property, plant and equipment constructed by third parties. However, the *NSW Bid Costs Contribution Policy* only allows reimbursement of bid costs on NSW Government construction projects with an estimated total capital cost over $100 million and where specific criteria are met. The expected accounting for costs that qualify under this policy is discussed in Section 4.2.

If agencies have questions relating to material bid costs that are not in the scope of AASB 116, they should contact Treasury.

1. What are bid cost contributions?

NSW Government agencies regularly undertake projects where they engage with the private sector for the delivery of property, plant and equipment on behalf of the State.

For many of these projects, the agency undertaking the project will issue an invitation to external parties to tender to complete some or all of the project.

In some cases, the agency undertaking the project reimburses unsuccessful bidders for a portion of the costs they incur in preparing and submitting their tender. Bid cost contributions are often necessary to attract suitable parties to undertake the construction work which may not otherwise be possible given the complexity and costs involved in preparing for the tendering process. These reimbursements are referred to throughout this guidance as 'bid cost contributions'.

Bid cost contributions are usually incurred for large, complex and unique assets. Due to the nature of the assets being constructed, agencies consider existing market constraints when deciding whether it is necessary to incur bid cost contributions. Bid costs contributions are a mechanism that allows agencies to attract sufficient market participation by suitably qualified tenderers for the nature of the assets being constructed. This encourages competitive bids, and both value for money and innovative solutions. Agencies may make bid cost contributions to ensure there are sufficient, suitable tenders received.

2. AASB 116 requirements for capitalisation

Bid cost contributions may be capitalised under AASB 116 *Property, Plant and Equipment* (AASB 116) where they meet certain recognition criteria.

> 7 The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

> (a) it is probable that future economic benefits associated with the item will flow to the entity; and
>
> (b) the cost of the item can be measured reliably.

An assessment of whether costs can be reliably estimated is required by AASB 116.7(b). This guidance does not address reliable measurement, and therefore assumes the relevant bid costs can be reliably measured.

AASB 116 provides the following measurement criteria for property, plant and equipment:

> 15 An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.

The cost of an item of property, plant and equipment has a number of components, as set out in AASB 116.16.

> 16 The cost of an item of property, plant and equipment comprises:
>
> a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
> b) Any costs <u>directly attributable</u> to bringing the asset to the <u>location and condition necessary</u> for it to be capable of operating in the manner intended by management.
> c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.
>
> [emphasis added]

AASB 116.16(b) indicates that directly attributable costs form part of the cost of an item of property, plant and equipment. AASB 116.17 provides the following examples of directly attributable costs:

> 17 Examples of directly attributable costs are:
>
> a) costs of employee benefits (as defined in AASB 119 *Employee Benefits*) arising directly from the construction or acquisition of the item of property, plant and equipment;
> b) costs of site preparation;
> c) initial delivery and handling costs;
> d) installation and assembly costs;
> e) costs of testing whether the asset is functioning properly (ie assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes); and
> f) professional fees.

AASB 116.19 excludes the following from the cost of an item of property, plant and equipment:

19 Examples of costs that are not costs of an item of property, plant and equipment are:

a) costs of opening a new facility;
b) costs of introducing a new product or service (including costs of advertising and promotional activities);
c) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and
d) administration and other general overhead costs.

In addition, AASB 116.22 excludes the cost of abnormal amounts of wastage in the cost of a self-constructed asset.

22 The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale (see AASB 102). Therefore, any internal profits are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset. ...

On this basis, to the extent that reimbursed bid costs are **directly attributable costs** as part of an essential delivery process for material, complex and unique assets, and it is probable that **future economic benefits** associated with the item will flow to the entity, they meet the criteria for capitalisation.

3. Whether costs are 'directly attributable' and represent '**future economic benefits**'

AASB 116 indicates that directly attributable costs form part of the cost of an item of property, plant and equipment. AASB 116 also provides examples of directly attributable costs.

To determine whether a cost is 'directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management', consideration should be given to the **intent of management** and the circumstances, at the point of reimbursing the bid costs of unsuccessful bidders. For this reason, **professional judgement** is involved in determining whether contributions towards unsuccessful bid costs meet the criteria for capitalisation.

For large projects involving material, complex and unique assets, the work performed by unsuccessful bidders is often an essential part of the delivery process for property, plant and equipment. Bid cost contributions incurred promote and secure competition in the market. This ensures value for money in the delivery of significant, complex and unique assets. If such work was not performed by unsuccessful bidders, it would often be necessary for an agency to undertake the work internally or outsource to other professionals for a fee. On this basis, making bid cost contributions can be an essential part of the delivery of significant assets and therefore integral to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Examples of costs which could be directly attributable to the cost of an item of property, plant and equipment being constructed include (but are not limited to):

- Design costs
- Modelling costs

- Material and supplier lists; and
- Specialist reports.

If the specific property plant and equipment is not ultimately constructed, the costs cannot be capitalised unless they comprise part of another asset, under either AASB 116 or another accounting standard, for example, AASB 138 *Intangible Assets*.

Where costs are determined to not be directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, they should be expensed.

4. Accounting for bid cost contributions

4.1 General approach

If it is the intent of management when a tender is issued, that bidders contribute to the cost of the delivery of a constructed asset, for example, through involvement in the design process, then the costs reimbursed to unsuccessful bidders may qualify for capitalisation into assets under construction under AASB 116.17(f), as professional fees forming part of directly attributable costs under AASB 116.16(b).

Judgement will be required to determine whether particular bid costs can be capitalised. When applying judgement, consideration should be given to the following factors. These factors do not replace the criteria in AASB 116, but they are indicators of whether bid costs are directly attributable to the asset and represent probable that future economic benefits as part of the asset. The list of factors is not exhaustive and the factors need to be considered in combination:

1. **Whether costs would have otherwise been incurred**

   Bid cost contributions may relate to costs that would either have been incurred internally by the agency undertaking the project or outsourced to a third party. In such cases consideration should be given to the following in determining whether capitalisation of the bid cost contribution is appropriate:

   - whether the amount that would otherwise have been incurred would have qualified for capitalisation under AASB 116.16(b); and
   - the amount that would otherwise been incurred compared to the bid cost contribution.

   If the bid cost contribution represents costs that would otherwise have been incurred that would have qualified for capitalisation, then the bid cost contributions will also likely qualify for capitalisation.

2. **Uniqueness of proposals from each bidder**

   Where multiple unsuccessful bidders provide different and unique proposals, the individual facts and circumstances should be considered in applying judgement as to whether the costs incurred are directly attributable to the property plant and equipment under construction. For example, different bidders may have developed different design options, each of which the State would have likely developed as a necessary step in the process if it had self-constructed the asset.

3. **Value for money**

   The extent to which bidders provide value for money to the State is one of a number of factors to be considered when assessing whether bid cost contributions incurred are directly attributable to the property plant and equipment under construction. For example, the experience and technical expertise of potential suppliers might provide a more efficient and effective outcome for an agency, compared to self-construction. This might be the case even where there is some duplication between bidders.

   AASB 116.22 contains guidance that *'…abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset'*. This guidance can be considered when assessing whether costs reimbursed to third parties should be included in the cost of the related asset. In other words, costs that would not be expected to be incurred are less likely be part of the cost of that asset.

Examples 1 and 2 below illustrate the above concepts.

Example 1

Agency A is constructing a unique and significant asset with an estimated capital cost of $175 million and has issued a tender for the design and construction.

The tender document contains the following terms:

- bid cost contributions will be made to unsuccessful bidders by Agency A;
- bid cost contributions will be limited to costs incurred of the following nature - design costs, technical modelling, legal advice, specialist reports; and
- in the event that a bid cost contribution is made by Agency A the unsuccessful bidder must provide all project-specific intellectual property to Agency A.

Agency A received three bids in relation to the tender from Bidders X, Y and Z. Each bidder incurred a cost of $50,000 in relation to the bid. All three bids had a high degree of differentiation, met the tender requirements as to the technical specifications and were complying bids.

Bidder X was announced as the successful bidder under the tender.

A bid cost contribution of $20,000 was made to each of Bidders Y and Z to cover the costs directly associated with the eligible costs qualifying for reimbursement.

The tenders submitted by Bidders Y and Z were then used by the agency in conjunction with Bidder X to develop and build the final asset being constructed, ensuring value for money in the cost of acquiring the asset.

Conclusion

The bid cost contributions paid to Bidders Y and Z **qualify for capitalisation** into assets under construction. The costs were necessarily incurred as part of the asset and are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Example 2

Agency Z is constructing a unique and significant asset with an estimated capital cost of $180 million and has issued a tender for the design and construction.

The tender document contains the following terms:

- All bidders will be entitled to a bid cost contribution of up to $20,000.
- A bidder's entitlement to the bid cost contribution is triggered by any one of the following:
  - *unsuccessful:* Agency Z enters into a Commitment Deed with a different proponent;
  - *sunset date:* no Commitment Deed has been entered into within six months of the closing date of the tender;
  - *procurement process terminated:* Agency Z terminates the procurement process.
- To be entitled to a bid cost contribution, the bidder must:
  - *participate:* participate in the procurement process;
  - *submit a conforming proposal*;
  - *provide evidence:* provide evidence of the claimed bid costs to Agency Z's reasonable satisfaction.

Agency Z received five bids in relation to the tender from Bidders A, B, C, D and E. Each bidder incurred a cost of $40,000 in relation to the bid.

Bidder C was announced as the successful bidder under the tender.

A bid cost contribution of $20,000 was made to each of Bidders A, B, D and E.

Conclusion

The bid cost contributions paid to Bidders A, B, D and E **do not qualify for capitalisation** as the costs were not necessarily incurred as **part of the essential delivery process for the property plant and equipment** The tender document did not specify the nature of the costs reimbursed or require the unsuccessful bidders to provide any intellectual property, for example, designs, financial models or materials lists to Agency Z.

The bid cost contributions will be recognised as an expense in the year in which they are incurred.

The guidance and examples above apply to the treatment, in accordance with Accounting Standards (i.e. AASB 116), of any bid costs reimbursed.

In practice, there are other policies that determine when agencies in NSW can reimburse bid costs. In particular, the *NSW Bid Costs Contribution Policy*. This is discussed below.

4.2 Contributions made under the NSW Bid Costs Contribution Policy

4.2.1 Background to the NSW Bid Costs Contribution Policy

The *NSW Bid Costs Contribution Policy* (the Policy) allows NSW Government agencies to make a contribution to unsuccessful bidders for NSW Government construction projects with an estimated total capital cost over $100 million. Reference should be made to the current Policy in full, for the detailed criteria for reimbursement. However, the current Policy:

- Describes which types of costs are bid costs (Section 1.2); and
- Prescribes detailed criteria for when a contribution can be made for bid costs (Section 3.1).

The following contains relevant extracts from the Policy, published in May 2018.

Bid costs can include: • design costs, • technical modelling, • legal advice, and • specialist reports required to develop a conforming bid

Criteria for reimbursement of bid costs	Detail
Mandatory Conditions	On projects where the decision has been made to offer bid costs, contributions will only be paid where the following conditions have been met: • a bid has been submitted which demonstrates that the Proponent has genuinely attempted to fully satisfy the intent of the Request for Tender. • the Proponent agrees to make available to the State any project-specific intellectual property (IP) rights reasonably requested by the Agency.
Value for Money	The following criteria are to be considered by Agencies, via the project governance structure, in deciding whether to pay bid cost contributions and, if so, the size of those contributions. *Market competitiveness* Contributions to bid costs should be offered only if it has been demonstrated to provide value for money. The Final Business Case should identify any expected constraints on attracting sufficient competition, the value of innovation, competitive processes and other factors which would commercially disadvantage the State, and refer to any market soundings or other research upon which this assessment is based. *Intellectual property* Agencies should identify whether, as a condition for making a bid cost contribution, they will require any project-specific IP from bidders to be made available to the State, to what extent and in what form. *Specified component of a tender* Agencies should consider whether bid cost contributions should be targeted at defined areas of the tender activities, for instance in relation to project design, rather than as a proportion of total eligible bid costs. *Other areas of consideration* Other areas of consideration in deciding whether to pay bid cost contributions include: • whether the project involves complex and/or material design requirements, • whether the bidders are required to exert non-typical effort (e.g. intensive interactive sessions, an excessive number of mandatory options or multiple best and final offers), • whether there is need to encourage foreign bidders to increase competition, • whether the reimbursement of bid costs would encourage innovation,

Criteria for reimbursement of bid costs	Detail
	• whether the project requires specific or unique expertise from a niche group of bidders, and/or • whether there is a sufficient level of market interest (e.g. number of bidders) in the project.

4.2.2 Accounting for contributions made under the Policy

The criteria for making a bid cost contribution under the Policy (published in May 2018) is closely aligned to the criteria for capitalisation under Accounting Standards, discussed in earlier sections of this guidance.

For this reason, eligible bid cost contributions made under the Policy will likely qualify for capitalisation under AASB 116.17(f), which identifies professional fees as forming part of directly attributable costs under AASB 116.16(b).

Note that the decision as to whether to capitalise or not will be based on applying professional judgement to ensure that bid cost contributions are **directly attributable** to the cost of developing and constructing material, complex and unique property, plant and equipment.

Example 3

Agency F is constructing a unique and significant property, plant and equipment with an estimated capital cost of $250 million and has issued a tender for the design and construction.

Agency F received four bids in relation to the tender from Bidders Q, R, S and T. Each bidder incurred a cost of $100,000 in relation to the bid.

Bidder Q was announced as the successful bidder under the tender.

The bid costs incurred by bidders R, S and T qualify for reimbursement under the *NSW Bid Costs Contribution Policy* and approval has been obtained from NSW Treasury to contribute $35,000 towards the bid costs of each of Bidders R, S and T.

These bid cost contributions enable specific elements of the design to be retained by Agency F. These design elements are able to be adapted by the Bidder Q (the successful bidder), as part of the delivery **of the asset,** taking into account innovative methods and value for money.

Conclusion

The bid cost contributions paid to Bidders R, S and T **qualify for capitalisation** into assets under construction as the costs were necessarily incurred as part of the **delivery of the asset** and are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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