IPSAS 32 Service Concession Arrangements: Grantor

Guidelines

IPSAS Implementation Team

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Introduction

1. IPSAS 32 Service Concession Arrangements (Grantor) – as adopted by the Maltese Government

1.1 These guidelines refer to the arrangements involving the operator providing public services related to the service concession asset on behalf of the grantor, the central government entity. IPSAS 32, as **adopted by the Maltese Government**, prescribes the accounting treatment for service concession arrangements by the grantor. This version is based on the original IPSAS 32 developed by the International Public Sector Accounting Standards Board (IPSASB).

2. Scope

2.1 These guidelines were prepared to enable the users to:

2.1.1. Develop a working-level knowledge of the principles contained in the accounting standard; and

2.1.2. Understand and appreciate the major challenges and benefits resulting from the implementation of IPSAS 32.[1]

3. Target Audience

3.1 These guidelines are designed for finance and non-finance employees employed in Ministries and Departments of the Government of Malta.

4. Guidelines Structure

4.1 These guidelines shall provide a detailed overview of all the principles contained in the standard, covering definitions and the impact of implementation as it affects recognition, measurement and disclosure of information about service concession arrangements entered into by the grantor.

[1] References to IPSAS 32 or any other IPSAS shall be taken as meaning 'as adopted by the Maltese Government'

A. Service Concession Arrangements Defined

1. A service concession arrangement takes place when a Ministry and/or Department (referred to as the *grantor*) enters into a binding arrangement with the private sector or state-owned enterprises (referred to as the *operator)* whereby the operator uses the service concession asset to provide a public service on behalf of Government for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement.

2. The service concession asset can be:

- An existing asset of the grantor; or
- An upgrade to an existing asset of the grantor; or
- An existing asset of the operator; or
- An asset provided by the operator which the operator
    - constructs or develops
    - acquires from a third party

The asset is transferred back to the entity at the end of the agreement, unless the agreement is extended further.

3. The grantor controls or regulates:

- **What services** the operator must provide with the asset;
- **To whom** these should be provided; and
- The **price** of the services offered.

4. The operator is compensated for the services rendered over the period of the arrangement.

5. Types of Services Concession Arrangements

5.1 <u>Build – Own – Operate – Transfer (BOOT):</u> The government ministry (grantor) contracts with a private developer to design and implement a large project. The operator assumes the risks associated with planning, constructing, operating and maintaining the project for a specified time-period. During that time, the operator charges customers who use the infrastructure, built to realise a profit. The operator will then transfer ownership to the grantor (either freely or for an amount stipulated in the contract) at the end of the binding arrangement (e.g. toll roads – paying a toll (fee) to use a specific road (or highway)).

5.2 Design – Build – Finance – Operate (DBFO): DBFO involves the integration of these four functions, Design, Build, Finance and Operate, within one operator. The operator will secure its own financing to build, maintain and operate the facilities to meet the grantor's requirements. The operator is paid according to the services delivered, at specified performance standards, throughout the entire contract length. This ensures optimal use of capital resources in government projects as well as greater certainty over future government cash flows. The approach also transfers financial risks to the private sector, which will do the due diligence to ensure financial viability of the project.

5.3 Operations Concession Agreements: a private company enters into an agreement with the government to have the exclusive right to operate, maintain and carry out investment in a public utility for a given number of years.

Benefits of Service Concession Arrangements (SCAs)

SCAs offer a win-win-win solution for the public sector, the private sector and members of the public.

- ✓ For the public sector: SCAs allow the public sector to get better value for money in the delivery of the public services. Moreover, by switching its role from a provider to a buyer of services, the Government can focus on its core responsibilities of policy-making and regulation. Through closer partnership with the private sector, efficiency gains and other benefits can be reaped, such as private sector expertise and optimal sharing of risks.
- ✓ For the private sector: SCAs offer more business opportunities to the private sector.
- ✓ For members of the public: SCAs bring together the expertise of the Government and the private sector to meet the needs of the public effectively and efficiently. When structured appropriately, SCAs will deliver public services that can better meet the needs of the public without compromising public policy goals and needs.

B. Impact of IPSAS 32 Implementation

1. IPSAS 32 addresses only the accounting for the grantor side of arrangements. This standard is intended to 'mirror' the International Financial Reporting Interpretations Committee (IFRIC) 12 Service Concession Arrangements, which addresses the accounting for the operator side. The setup of a service concession arrangement is often complex, and is normally in place for long periods of time. Such factors introduce complexity into the accounting.

2. Arrangements within scope include operators (private entities or state-owned enterprises) providing public services related to the service concession asset on behalf of the grantor (government). Arrangements which do not provide delivery of public services or where the asset is not controlled by the grantor (such as outsourcing, service contracts and privatisation) do not fall within the scope.

3. **Why adopt IPSAS 32?**

   This standard will require the non-current asset and liability to be recorded on the government's statement of financial position. Such accounting treatment eliminates the possibility that liabilities will be understated and payment burdens shifted onto future generations without transparency.

   IPSAS 32 is a major improvement of government financial reporting in:

   – Accountability, because service concession assets and liabilities are no longer off-balance sheet; and

   – Decision-making, because service concession arrangements should now be justified by value-for-money objectives and not simply debt reduction.

C. Recognition and Measurement of a Service Concession Asset

1. The grantor shall recognise a **service concession asset** provided by the operator and an upgrade to an existing asset of the grantor as a **service concession asset if:**

i. The grantor controls or regulates
   - What services the operator must provide with the asset;
   - To whom it must provide them; and
   - At what price.

ii. 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.

The conditions listed above have to be satisfied for the service concession asset to be recorded in the books of the grantor. Where the asset is going to be used by the operator for the whole of its estimated useful life, then it need not meet the second control criteria.

Sometimes the use of a service concession asset is partly regulated in the manner described in 1(i) above and partly unregulated. However, these arrangements take a variety of forms:
(a) Any asset that is physically separable and capable of being operated independently and meets the definition of a cash-generating unit as defined in IPSAS 26, Impairment of Cash-Generating Assets is analysed separately to determine whether the condition set out in 1(i) above is met if it is used wholly for unregulated purposes (e.g., this might apply to a private wing of a hospital, where the remainder of the hospital is used by the grantor to treat public patients); and
(b) When purely ancillary activities (such as a hospital shop) are unregulated, the control tests are applied as if those services did not exist, because in cases in which the grantor controls the services in the manner described in 1(i), the existence of ancillary activities does not detract from the grantor's control of the service concession asset.

2. The mandated function and the respective terms and conditions of such service concession arrangement are laid down in a binding arrangement. The transfer of the right to use the asset for the provision of such services and the obligations of the operator to provide such service have to be in accordance with the stipulated performance requirements. The grantor also restricts to whom such services must be provided, which is normally in the interest of the general public.

3. The binding arrangement also controls the price to be levied by the operator and regulates price revisions over the term of the service concession arrangement. One option is to place a capping on the price. The grantor can guarantee the minimum fee to be received by the operator and yet at the same time it will be regulating the amount of fees to be charged by the operator. Such condition will mean that the grantor will have to compensate the private entity for any resulting shortfall and the operator will have to give the excess profit to the grantor. The grantor may also stipulate that the operator reinvests the excess profits through upgrades of the asset entrusted to him.

4. Binding Arrangements and Grantor Control: the following decision tree may be used by an entity to establish whether it should recognize a service concession asset and related liability.

Does the grantor control or regulate what services the operator must provide with the service concession asset, to whom it must provide them, and at what price?

N

GRANTOR DOES NOT RECOGNIZE A SERVICE CONCESSION ASSET OR LIABILITY

Y

Does the grantor control, through ownership, beneficial entitlement or otherwise, any significant residual interest in the service concession asset at the end of the service concession arrangement (unless the service concession asset used in the arrangement is for its entire useful life)?

N

N

Y

Is the service concession asset

- Constructed, developed or acquired by the operator from a third party for the purpose of the service concession arrangement, or
- An existing asset of the operator that becomes the service concession asset as part of the service concession arrangement?

N

Is the service concession asset an existing asset of the grantor to which the operator is given access for the purpose of the service concession arrangement?

Y

Y

GRANTOR RECOGNIZES A SERVICE CONCESSION ASSET AND A RELATED LIABILITY

- Grantor recognises a service concession asset, or reclassifies an item of property, plant and equipment, an intangible asset, or a leased asset as a service concession asset.
- Grantor accounts for the service concession asset as PPE or an intangible asset as per IPSAS 17 or IPSAS 31, as appropriate.
- Grantor follows impairment testing as set out in IPSAS 21 and IPSAS 26.
- Grantor recognises related liability equal to the value of the SCA
- Grantor recognises revenue and expenses related to SCA.

5. Asset Recognition

5.1 IPSAS 17, *Property, Plant, and Equipment* and IPSAS 31, *Intangible Assets* require that the service concession asset be recognised if:

- it is probable that future economic benefits will flow to the entity; and
- the fair value or cost of the asset can be measured reliably during its construction or development.

5.2 Service concession assets should be treated as a **separate class of assets** in the statement of financial position. There can be four types:

a) An existing asset of the grantor;
b) An upgrade of an existing asset of the grantor;
c) An existing asset of the operator; or
d) A newly acquired or constructed/developed asset provided by the operator.

a) <u>Existing assets of the grantor</u>
The service concession arrangement may involve an existing asset of the grantor (the government). When the asset is state owned, it shall be **reclassified** as a service concession asset in accordance with IPSAS 17 and 31.

b) <u>Existing assets of the grantor - Upgrade</u>
An upgrade to an existing asset of the grantor is **recognised** as a service concession asset if the future economic benefits or service potential the asset will provide are increased. If, on the other hand, the grantor transfers the asset to the operator on a <u>permanent basis</u>, the grantor derecognises the asset.

Example 1: Reclassification of an existing asset

On 1st January 2017, the Government entered into an agreement with a private company for the use of existing government-owned premises as a home for the elderly to provide care services for the elderly. On this date the carrying amount of the asset was €700,000 (fair value €750,000). The <u>control criteria</u> for recognition of asset as a service concession asset were met.

The grantor shall **reclassify the asset** at its carrying amount on the date the control criteria were met (that is on 1st January 2017), as follows:

Debit Service Concession Asset	€700,000	
Credit Property, Plant and Equipment		€700,000

Note that the grantor's assets that are reclassified to be service concession assets will be reclassified at their carrying amount without any fair valuing at date of reclassification.

c) Existing assets of the operator

The operator may provide an asset for use in the service concession arrangement that it has not constructed, developed or acquired. In such cases, the grantor shall determine whether the asset meets the conditions for a whole-of-life asset, which is that:

- The grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price.

If above condition for recognition is met, then the asset is **recognised as a service concession asset in the books of the grantor.**

d) Acquired, constructed or developed asset provided by the operator

If the service concession arrangement requires that an asset is acquired, constructed or developed by the operator, then such asset should be **recognised** on the statement of financial position of the grantor if the conditions in paragraph 1 are met.

Example 2: Railway superstructure – is this a service concession asset, and does it meet the recognition criteria of a service concession asset for the grantor?

Government entered into an agreement with a local operator to design, build, finance and operate a railway superstructure from Munich to Vienna. The contractual agreement is for 40 years, from 2017 to 2057. The government is to receive annually an estimated €120 million from the train company as user fees (train tickets) and pay €80 million annually to the operator. The railway is to revert to government in 2057.

Does the asset meet definition of a service concession asset? YES

- The operator uses the railway to provide a public service on behalf of the grantor for a specified period of time; and
- The operator is compensated for its service over the period of the arrangement.

Does the asset meet the recognition criteria of a service concession asset for the grantor: YES

- 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
- 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.

6. Asset Measurement

6.1 Initial measurement: The grantor shall initially measure the service concession asset at **fair value** except if the grantor's assets are reclassified to be service concession assets, which is carried out without any fair valuing at date of reclassification. Determining the fair value of the service concession asset often involves the use of estimation techniques. When there is an open and active market for such type of assets, reference could be made to the market transactions for similar assets. When there is no such market, the fair value will need to be estimated on a different basis, like for example the replacement cost or if it is a new asset, the cost of purchasing or constructing an equivalent asset.

6.2 The grantor may compensate the operator for the service concession asset and the service provision by:

a) Making payments to the operator;
b) Compensating the operator by other means, such as:
   - Granting the operator the right to earn revenue from third parties for the use of such service concession asset; or
   - Granting the operator access to another revenue-generating asset for its use;
c) A combination of the above.

6.3 The grantor should then recognise those assets, previously controlled by the operator, in its statement of financial position once the control criteria are met.

6.4 The fair value of the existing operator's assets is derived by making reference to the **type of compensation** exchanged between the grantor and the operator, as follows:

a) Where payments are made by the grantor to the operator, the fair value on initial recognition of the asset is that portion of the payments paid to the operator for this asset;
b) Where the grantor does not make payments to the operator, the asset is accounted for in the same way as an exchange of a non-monetary asset in IPSAS 17, *Property, Plant and Equipment* and IPSAS 31, *Intangible Assets*.

6.5 For such exchange transactions, the transaction price is considered to be the fair value, unless indicated otherwise.

6.6 A grantor applies IPSAS 17 and IPSAS 31 to the subsequent measurement and derecognition of a service concession asset. IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*, are applied to test for impairment.

6.7 Separable and Inseparable payments: The fair value of the service concession asset shall include only amounts related to the asset and shall exclude amounts for other components of the service concession arrangement. If the present value of the asset portion of payments to be made is greater than the fair value, the service concession asset should still be initially measured at fair value. In case of inseparable payments, estimation techniques may have to be used to derive the fair value of the service concession asset to ensure that it includes only amounts related to the asset and excludes amounts for other components of the service concession arrangement such as finance charges and other expenses.

D. Recognition and Measurement of liability relating to a Service Concession Asset

1. When a service concession asset is recognised in accordance with the control criteria outlined in C 1, **the grantor has to recognise a liability**. The grantor shall not recognise a liability when an existing asset of the grantor is reclassified as a service concession asset, except in circumstances where additional consideration is provided by the operator.

   1.1. **Initial Measurement**: The liability recognised shall be initially measured at the **same amount as the service concession asset**.

   1.2. **Subsequent Measurement**: It **depends on the nature of the compensation** exchanged between the grantor and the operator.

   1.2.1 If government compensates the operator for construction by making predetermined series of payments during the life of the SCA:

   - ✓ Government recognizes the **assets** and a **financial liability** equal to the full value of the assets [**Financial Liability Model**].

   1.2.2 If government compensates operator for the construction by granting the operator the right to earn revenues from users:

   - ✓ Government recognizes the **assets** and **unearned revenue** equal the full value of the asset [**Grant of a right to the Operator Model**]

2. **Financial liability model:**

   2.1 The grantor compensates the operator by making a predetermined series of payments to the operator. The grantor recognises a financial liability, equivalent to that portion of payment pertaining to the asset. The liability does not include the finance charge and service components of the payments made.

   2.2 The finance charge is based on the operator's cost of capital specific to the service concession asset (if it is practicable to derive). Where sufficient information is not available, the rate used to determine the finance charge may be estimated by reference to the rate that would be expected on acquiring a similar asset (as for the lease of a similar asset, in a similar location and for a similar term) appropriate to the terms and conditions of the arrangement. The estimate of the rate should be reviewed together with:

   - The present value of the payments;
   - The assumed fair value of the asset; and

- The assumed residual value, to ensure all figures are reasonable and mutually consistent.

2.3 If the operator's cost of capital specific to the service concession asset is not practicable to determine, the rate implicit in the arrangement specific to the service concession asset, the grantor's incremental borrowing rate, or another rate appropriate to the terms and conditions of the arrangement, is used.

2.4 Any payments made by the grantor in advance of the service concession asset being recognised should be considered as prepayments whereas any finance charges (deemed or incurred) are treated as an expense.

Example 3: Recognition of Financial Liability

Government entered into an agreement with a local operator to design, build, finance and operate a high speed railway superstructure from Munich to Vienna. The contractual agreement is for 40 years, from 2017 to 2057. The government is to receive annually an estimated €120 million from the train company as user fees (train tickets) and pay €80 million annually to the operator. Commuters were to use this service for free. The railway is to revert to government in 2057.

The railway superstructure is an asset constructed by the operator, which meets the recognition criteria of a service concession asset for the grantor.

The grantor recognises a **financial liability** equivalent to that portion of payment pertaining to the asset as there are a **determinable series of payments.**

Example 4: Grantor has an obligation to make predetermined payments

On 1st January 2015, the Government entered into a service concession arrangement with a private water company (WaterServ Ltd) for a period of 4 years. The agreement specified that WaterServ Ltd. will use its reverse osmosis plant it acquired at a cost price of €2 million. The Government (grantor) shall compensate WaterServ Ltd. (operator) by making monthly payments of €30,000 for a period of 4 years, €3,000 of which relates to the service element. The agreement also specifies that if the reverse osmosis plant breaks down, the grantor shall still be liable to make such payments but at a pro-rated amount. The market interest rate is 7%.

In accordance with IPSAS 32, the Government must recognise and measure a financial liability at date when it became party to contractual provisions as follows:

Initial measurement			
		€	€
Dr	Service Concession Asset	2,000,000	
Cr	Service Concession Liability		2,000,000
	Being the initial recognition of financial liability		
Subsequent measurement			
Dr	Depreciation (€2,000,000/4yrs)	500,000	
Cr	Accumulated depreciation on service concession asset		500,000
	Being the depreciation expense		
Dr	Finance cost (€2,000,000 * 7%)	140,000	
Cr	Service Concession Liability		140,000
	Being the interest on service concession liability		
Dr	Service Concession Liability (balancing figure)	184,000	
Dr	Service concession services (€3,000 x 12)	36,000	
Dr	Finance cost	140,000	
Cr	Bank (€30,000 x 12 mths)		360,000
	Being the compensation payment to operator		

3. Grant of a right to the operator model

3.1 The grantor compensates the operator by granting the operator the right to earn revenue from third party users or granting the operator access to another revenue-generating asset for the operator's use. The grantor does not recognise the revenue immediately. In such case the grantor recognises a liability for any portion of the revenue that is not yet earned. This usually is permitted until such time that the purchase price or construction cost of the service concession asset is settled in full, at which point in time the operator will only be compensated by a service provision. Revenue is recognised in the books of the grantor according to the economic substance in the service concession arrangements.

3.2. In instances where the grantor compensates the operator solely for the usage of a service concession asset by third-party users, and not the acquisition of the service concession asset, such payments are accounted for as expenses in accordance with IPSAS 1, *Presentation of Financial Statements*.

Example 5: Grant of a right to the operator model

On 1st January 2017, a private construction company (Construct Ltd.) entered into an agreement with Works and Infrastructure Department to design, build and operate a bridge between Malta and Gozo. Works and Infrastructure Departments pays annual grants amounting approximately to 60% of all costs to Construct Ltd. The toll rate varies between €3.50 and €22.50 per vehicle (which is approximately 40% of all costs). After 30 years, the capital expenditure will have been recovered and the tunnel will be free. Works and Infrastructure Department will then continue to pay for the maintenance and management of the tunnel.
This follows the **Grant of a Right to the Operator Model** because the grantor (Government) is compensating the operator (Construct Ltd) by granting the operator the right to earn revenue from third party users.

Method of accounting:

- The grantor (Works and Infrastructure Department) recognises a liability for any portion of the revenue that is not yet earned.
- The grantor (Works and Infrastructure Department) recognises revenue according to the economic substance of the service concession arrangement, and the liability is reduced as revenue is recognised.
- The grantor (Works and Infrastructure Department) expenses the annual grants paid to the operator.(Construct Ltd).

Example 6: Right to earn revenue from service concession asset

Government and My Cruises Ltd. made a service concession agreement for the provision of boat services between the various islands for a period of 4 years. The parties agreed that the operator will use the boats, acquired for €4.5 million to provide these services. The useful life of these boats is 10 years. Their agreement stipulated that the operator would, until the boats have been fully paid, have right of use and receive revenue from the boats' service, following which only service provision fees will apply, amounting to €500,000 every year for services provided.

During these 4 years, the **operator** recorded the following revenues:
Year 1: €1,800,000, Year 2: €1,100,000, Year 3 €800,000, Year 4 €800,000

Total boat revenues for these 4 years amounted to:
Year 1: €3,500,000, Year 2: €3,200,000, Year 3 €3,000,000, Year 4 €2,000,000

The grantor shall account for the transactions as follows:

Initial measurement			
		€	€
Dr	Service Concession Asset	4,500,000	
Cr	Unearned revenue liability		4,500,000
	Being the right granted to the operator to earn revenue from third parties		
Subsequent measurement			
Year 1			
Dr	Depreciation (€4,500,000/10 yrs.)	450,000	
Cr	Accumulated depreciation on service concession asset		450,000
	Being the depreciation of asset		

Dr	Bank (Balancing figure)	1,200,000	
Dr	Unearned revenue liability (Operator)	1,800,000	
Dr	Service concession services	500,000	
Cr	Total revenue earned		3,500,000
	Being the revenue earned during the first year		

Year 2			
Dr	Depreciation (€4,500,000/10 yrs.)	450,000	
Cr	Accumulated depreciation on service concession asset		450,000
	Being the depreciation of asset		
Dr	Bank (Balancing figure)	1,600,000	
Dr	Unearned revenue liability (Operator)	1,100,000	
Dr	Service concession services	500,000	
Cr	Total revenue earned		3,200,000
	Being the revenue earned during the second year		

Year 3			
Dr	Depreciation (€4,500,000/10 yrs.)	450,000	
Cr	Accumulated depreciation on service concession asset		450,000
	Being the depreciation of asset		
Dr	Bank (Balancing figure)	1,700,000	
Dr	Unearned revenue liability (Operator)	800,000	
Dr	Service concession services	500,000	
Cr	Total revenue earned		3,000,000
	Being the revenue earned during the third year		

Year 4			
Dr	Depreciation (€4,500,000/10 yrs.)	450,000	
Cr	Accumulated depreciation on service concession asset		450,000
	Being the depreciation of asset		
Dr	Bank (Balancing figure)	700,000	
Dr	Unearned revenue liability (Operator)	800,000	
Dr	Service concession services	500,000	
Cr	Total revenue earned		2,000,000
	Being the revenue earned during the fourth year		

Period	**Unearned Revenue**
	€4,500,000
Year 1	-€1,800,000
Year 2	-€1,100,000
Year 3	-€800,000
Year 4	-€800,000
	€0

3.3 The grantor shall recognise revenue and reduce the liability according to the economic substance of the service concession arrangement.

3.4 The grantor's revenue is earned as the grantor allows the operator access to the service concession asset to earn revenue from third-party users. Consequently, the pattern of revenue recognition should reflect the access granted to the operator. Where the access remains constant over the period of the service concession arrangement, this may suggest that it would be appropriate to recognise revenue on a straight-line basis over the life of the service concession arrangement. However, if the access granted to the operator varies over the period of the service concession arrangement, it would be appropriate to recognise revenue proportionately to the access granted. As the service concession arrangements typically covers many years, it will often be appropriate to recognise revenue using discounting methods to reflect the time value of money. In such cases, the discount rate used should reflect the term of the service concession arrangement.

3.5 The level of revenue generated by the operator will impact the grantor's revenue ONLY IF there are additional mechanisms such as revenue sharing requirements incorporated in to the service concession arrangement. The operator earns revenue from the users of the service; often that revenue will be variable and dependent on a number of factors. The grantor earns revenue from the operator, which revenue is generally determined by the terms of arrangement.

3.6 The operator may provide other revenue, such as upfront payment, a stream of payments or other consideration to the grantor for the right to use the service concession asset over the term of the service concession arrangement. In such cases, the grantor accounts for these payments separately in accordance with IPSAS 9, Revenue from Exchange Transactions.

3.7 If the operator is compensated by a combination of a predetermined series of payments and by receiving the right to earn revenue from third-party use of the service concession asset or another revenue-generating asset, each portion of the liability has to be accounted for separately. The consideration has to be divided into a financial liability portion and a liability portion for the right granted to the operator to earn revenue from third-parties.

4. **Contingent assets or liabilities** may arise from disputes over the terms of the service concession arrangement. Such contingencies are accounted for in accordance with IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets.

E. Presentation and Disclosure

1. This guideline addresses only the additional disclosures relating to service concession arrangements. Where the accounting for a particular aspect of a service concession arrangement is addressed in another Standard than IPSAS 32, the grantor follows the disclosure requirements of that other Standard in addition to those set out in this guideline.

2. A grantor shall disclose the following information in respect of service concession arrangements in each reporting period:

(a) A description of the arrangement;

(b) Significant terms of the arrangement that may affect the amount, timing, and certainty of future cash flows (e.g., the period of the concession, re-pricing dates, and the basis upon which re-pricing or re-negotiation is determined);

(c) The nature and extent (e.g., quantity, time period, or amount, as appropriate) of:

(i) Rights to use specified assets;

(ii) Rights to expect the operator to provide specified services in relation to the service concession arrangement;

(iii) Service concession assets recognised as assets during the reporting period, including existing assets of the grantor reclassified as service concession assets;

(iv) Rights to receive specified assets at the end of the service concession arrangement;

(v) Renewal and termination options;

(vi) Other rights and obligations (e.g. major overhaul of service concession assets); and

(vii) Obligations to provide the operator with access to service concession assets or other revenue-generating assets;

(d) Changes in the arrangement occurring during the reporting period.

Statement of Financial Position as at 31st December 2016 (extract)				
	Notes	2016 (€)	2015 (€)	
Non-Current Assets				
Property, plant and equipment [2]	40	x	x	IPSAS 1.88 (a)
Current Liabilities				
Service Concession Liability	46	x	x	
Non-Current Liabilities				
Service Concession Liability	46	x	x	

[2] Service ConcessionAssets are included as part of Property, Plant and Equipment

	Land & Buildings	Infrastructure Assets	Plant & Machinery	Furniture, Fixtures & Equip.	IT Equip.	Vehicles	Leasehold Improvements	Service Concession Assets	Total
Cost	€	€	€	€	€	€	€	€	€
At 1 January 2012	X	X	X	X	X	X	X	X	X
Additions	X	X	X	X	X	X	X	X	X
Disposals	X	X	X	X	X	X	X	X	X
Transfers/adjustment	X	X	X	X	X	X	X	X	(X
At 31 December 2012	X	X	X	X	X	X	X	X	X
Additions	X	X	X	X	X	X	X	X	X
Disposals	X				X	X	X	X	X
Transfers/adjustments	X	X	X	X	X	X	X	X	X
At 31 December 2013	X	X	X	X	X	X	X	X	X
Depreciation & Impairment									
At 1 January 2012	X	X	X	X	X	X	X	X	X
Depreciation	X	X	X	X	X	X	X	X	X
Disposals	X	X	X	X	X	X	X	X	X
Impairment	X	X	X	X	X	X	X	X	X
Transfers/adjustment	X	X	X	X	X	X	X	X	X
At 31 December 2012	X	X	X	X	X	0	X	X	X
Depreciation	X	X	X	X	X	X	X	X	X
Disposals	X	X	X	X	X	X	X	X	X
Impairment	X	X	X	X	X	X	X	X	X
Transfers/adjustment	X	X	X	X	X	X	X	X	X
At 31 December 2013	X	X	X	X	X	X	X	X	X
Net book values									
At 31 December 2013	X	X	X	X	X	X	X	X	X
At 31 December 2012	X	X	X	X	X	X	X	X	X

Example 8: Extract from notes to the financial statements

During the current reporting period, the Government entered into a service concession agreement with a private company to provide public bus transport services to the inner-city in an effort to reduce congestion and boost economic development in the area. The first phase of the project was launched on 1st January 2016. The service provider is required to supply the infrastructure for the bus routes, which will be constructed over a period of 3 years and brought into service in phases.

The Government provided the company with the exclusive right to operate the service for 25 years, with no option of renewal, and the pricing of fares is subject to regulation. The service provider will earn revenue from the fares collected. Upon expiry the Government will retain the infrastructure assets and the service provider will retain the vehicles. The following service concession assets and liabilities have been recognised as at reporting date:

	2016 €	2015 €
Fair value of service concession asset as recognised in Property, Plant and Equipment – infrastructure	359,900	-
Accumulated depreciation to-date	(12,000)	-
Net carrying amount	**347,900**	**-**
Service concession liability at beginning of year	359,900	-
Service concession revenue recognised	(10,000)	-
Service concession liability at year end	**349,000**	**-**

IPSAS 32 requires consideration of all aspects of the concession service arrangement when determining the appropriate disclosures to be provided. As every service concession arrangement is likely to have unique characteristics, IPSAS 32 implies a degree of judgement to ensure that the appropriate information is included.

Glossary

"Accruals-based accounting" Accruals-based accounting is a system of accounting based on the accrual principal, under which revenue is recognised (recorded) when earned, and expenses are recognised when incurred.

"Central Government entities" The term CGEs refers only to ministries and departments of the Government of Malta.

"Binding arrangement" A Binding arrangement refers to the contract and/or other arrangement that confer similar rights and obligations on the parties to it as if they were in the form of a contract.

"Grantor" The Grantor is the entity that grants the right to use the service concession asset to the operator (the Government).

"Operator" The Operator is the entity that uses the service concession asset to provide public services subject to the grantor's control of the asset (the private sector or state-owned enterprises).

"Service concession arrangement" A Service concession arrangement is a binding arrangement between a grantor and an operator in which:

(a) The operator uses the service concession asset to provide a public service on behalf of the grantor for a specific period of time; and

(b) The operator is compensated for its services over the period of the service concession arrangement.

"Service concession asset" A Service concession asset is an asset used to provide public services in a service concession arrangement that:

(a) Is provided by the operator which:
  - (i) The operator constructs, develops, or acquires from a third party; or
  - (ii) Is an existing asset of the operator; or

(b) Is provided by the grantor which:
  - (i) Is an existing asset of the grantor; or
  - (ii) Is an upgrade to an existing asset of the grantor