

PBE IPSAS 32 Service Concession Arrangements: Grantor – Differences to NZ IFRS (PBE)

	NZ IFRS	PBE IPSAS 32	Difference
1	<p>There is no NZ IFRS standard covering how a grantor should deal with service concession arrangements.</p> <p>NZ IFRIC 12 (PBE) which dealt with these arrangements from the operators perspective is now included in the PBE standards as PBE FRS 45 <i>Service Concession Arrangements Operator</i>.</p> <p>PBE FRS 45 is based on NZ IFRS 12 (PBE) and NZ SIC Interpretation 29 <i>Service Concession Arrangements: Disclosures</i>. PBE FRS 45 is largely consistent with these NZ IFRS interpretations.</p>	<p>PBE IPSAS 32 describes the accounting for service concession arrangements by the grantor. Service concession arrangements are often referred to as public-private partnerships (although the application of PBE IPSAS 32 is not limited to arrangements involving a private sector operator).</p> <p>A service concession arrangement is a binding arrangement between a grantor and an operator in which</p> <ul style="list-style-type: none"> (a) the operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time; and (b) the operator is compensated for its service over the period of the service concession arrangement. <p>PBE IPSAS 32 applies to arrangements that:</p> <ul style="list-style-type: none"> (a) meet the definition of a service concession arrangement; and (b) where the grantor controls the service concession asset. <p>Further guidance on determining whether or not an arrangement is within the scope of PBE IPSAS 32 is contained within the implementation guide accompanying the standard.</p> <p>In particular, PBE IPSAS 32 applies to arrangements where the grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price.</p> <p>(PBE IPSAS 32.5-6 & 32.8)</p> <p>A service concession asset is recognised in the grantor's financial statements if:</p> <ul style="list-style-type: none"> 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 	<p>PBE IPSAS 32 has no equivalent in NZ IFRS (PBE).</p> <p>Entities will need to consider whether arrangements they have with third party service providers fall within the scope of PBE IPSAS 32.</p> <p>An entity with arrangements meeting the definition of service concession arrangements will need to consider whether its accounting policies are consistent with PBE IPSAS 32.</p> <p>However, it is expected that most entities who are grantors with such arrangements will already be applying policies that 'mirror' IFRIC 12.</p> <p>Also, the current Crown accounting policy for grantors in service concession arrangements under NZ IFRS is consistent with the PBE requirements of PBE IPSAS 32.</p> <p>Public-Private Partnerships (PPPs) that have been agreed in accordance with the contractual framework incorporated in the Treasury's <i>Standard Form PPP Project Agreement</i> (http://www.infrastructure.govt.nz/publications/draftpppstandardcontract) have applied the accounting requirements of PBE IPSAS 32 <i>Service Concession Arrangements: Grantor</i> and PBE FRS 45 <i>Service Concession Arrangements: Operator</i>.</p> <p>Any service concession arrangements that have been agreed outside these parameters will need to consider whether they fall within the scope of PBE IPSAS 32 /PBE FRS 45 and whether any accounting adjustments are necessary.</p>

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	<p>or otherwise – any significant residual interest in the asset at the end of the term of the arrangement.</p> <p>This applies, even if the operator legally owns the asset.</p> <p>(PBE PSAS 32.9)</p> <p>A service concession asset is initially measured at fair value unless it is an existing asset of the grantor, in which case the grantor will reclassify the asset as a service concession asset.</p> <p>After reclassification, the assets are treated in accordance with PBE IPSAS 17 <i>Property Plant and Equipment</i> or PBE IPSAS 31 <i>Intangible assets</i> as appropriate.</p> <p>(PBE IPSAS 32.11-13)</p> <p>When a grantor recognises a service concession asset, the grantor must also recognise a liability¹, which is initially measured at the same amount as the service concession asset.</p> <p>Depending on the nature of the consideration exchanged, the nature of the liability is recognised under one of two models:</p> <ul style="list-style-type: none"> a) the <i>financial liability</i> model²; or b) the <i>grant of right to the operator</i> model³ <p>The liability model determines the accounting treatment to be applied to the arrangement.</p> <p>PBE IPSAS 32.14-26</p>	<p>For individual entities the impact will depend on whether Crown accounting policies have been adopted in the individual financial statements of the entity.</p>

¹ Except where an existing asset of the grantor is reclassified as a service concession asset, with no additional consideration provided to the operator.

² The *financial liability* model applies where the grantor compensates the operator for the service concession asset by making payments to the operator. The grantor accounts for the payments to the operator as a reduction in the financial liability, a finance charge and charges for service provided by the operator.

³ The *grant of right to the operator* model applies where the grantor compensates the operator by other means (e.g. by granting the operator the right to earn revenue from third party users of the service concession asset). The grantor recognises revenue and reduces the liability according to the economic substance of the arrangement. Generally this means recognising revenue (and a corresponding reduction in the liability) over the term of the service concession arrangement.