Accounting Standard for Local Bodies (ASLB) 32

Service Concession Arrangements: Grantor

(Based on corresponding IPSAS 32)

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ASLB 32-SERVICE CONCESSION ARRANGEMENTS: GRANTOR

Contents

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(This Accounting Standard includes paragraphs set in ***bold italic*** *type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies*[1]*)*

The Accounting Standard for Local Bodies (ASLB) 32, *'Service Concession Arrangements: Grantor'*, issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies:

Objective

1. The objective of this Standard is to prescribe the accounting for service concession arrangements by the grantor, a Local Body.

Scope (see paragraphs AG 1 – AG 2)

2. ***An entity[3] that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for service concession arrangements.***

3. ***This Standard applies to all entities that are described as the Local Bodies in the Preface to Accounting Standards for Local Bodies[4].***

4. [Deleted]

5. Arrangements within the scope of this Standard involve the operator providing public services related to the service concession asset on behalf of the grantor.

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[1] Attention is specifically drawn to paragraph 4.2 of the *'Preface to the Accounting Standards for Local Bodies'*, according to which Accounting Standards are intended to apply only to items which are material.

[2] Reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'* providing the discussion on the compliance with the Accounting Standards for Local Bodies.

[3] An entity for the purposes of this Standard is referred to as the grantor.

[4] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies'.*

6. Arrangements outside the scope of this Standard are those that do not involve the delivery of public services and arrangements that involve service and management components where the asset is not controlled by the grantor (e.g., outsourcing service contracts, or privatisation).

7. This Standard does not specify the accounting by operators.

Definitions (see paragraphs AG3-AG4)

8. ***The following terms are used in this Standard with the meanings specified:***

A binding arrangement, for the purposes of this Standard, describes contracts and other arrangements that confer similar rights and obligations on the parties to it as if they were in the form of a contract.

A grantor, for the purposes of this Standard, is the entity that grants the right to use the service concession asset to the operator.

An operator, for the purposes of this Standard, is the entity that uses the service concession asset to provide public services subject to the grantor's control of the asset.

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 specified period of time; and

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

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.

Fair value ***is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.***

Terms defined in other ASLBs are used in this Standard with the same meaning as in those other Standards.

Recognition and Measurement of a Service Concession Asset (see paragraphs AG5-AG35)

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

   (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 or otherwise-any significant residual interest in the asset at the end of the term of the arrangement.

10. ***This Standard also applies to an asset used in a service concession arrangement for its entire useful life (a "whole-of-life" asset) if the conditions in paragraph 9(a) are met.***

11. ***The grantor should initially measure the service concession asset recognised in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset) at its fair value, except as noted in paragraph 12.***

12. ***Where an existing asset of the grantor meets the conditions specified in paragraph 9(a) and 9(b) (or paragraph 10 for a whole-of-life asset), the grantor should reclassify the existing asset as a service concession asset. The reclassified service concession asset should be accounted for in accordance with ASLB 17, 'Property, Plant and Equipment' or ASLB 31, 'Intangible Assets', as appropriate.***

13. ***After initial recognition or reclassification, service concession assets should be accounted for in accordance with ASLB 17 or ASLB 31, as appropriate.***

Recognition and Measurement of Liabilities (see paragraphs AG36-AG50)

14. ***Where the grantor recognises a service concession asset in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset), the grantor should also***

recognise liability. The grantor should not recognise a liability when an existing asset of the grantor is reclassified as a service concession asset in accordance with paragraph 12, except in circumstances where additional consideration is provided by the operator, as noted in paragraph 15.

15. ***The liability recognised in accordance with paragraph 14 should be initially measured at the same amount as the service concession asset measured in accordance with paragraph 11, adjusted by the amount of any other consideration (e.g., cash) from the grantor to the operator, or from the operator to the grantor.***

16. The nature of the liability recognised is based on the nature of the consideration exchanged between the grantor and the operator. The nature of the consideration given by the grantor to the operator is determined by reference to the terms of the binding arrangement and, when relevant, contract law.

17. In exchange for the service concession asset the grantor may compensate the operator for the service concession asset by any combination of:

    (a) Making payments to the operator (the “financial liability" model); e.g., A municipality has entered into a concession arrangement with private party to construct municipal solid waste processing facility (e.g., compost plant). The operator will design, construct, finance, operate, maintain, manage and transfer the project after 10 years. The grantor compensates the operator by making payment of specified monthly amount in accordance with the terms of the concession arrangement.

    (b) Compensating the operator by other means (the “grant of a right to the operator" model) such as:

        (i) Granting the operator the right to earn revenue from third party users of the service concession asset; or e.g., the municipal corporation has entered into an arrangement with a private entity to strengthen a highway whereby the operator is required to design, construct, operate and maintain the project highway for a period of 20 years. The operator will earn from the toll collection and the rate of the toll will be regulated by the municipality.

        (ii) Granting the operator access to another revenue-generating asset for the operator's use (e.g., a private wing of a hospital where the remainder of the hospital is used by the grantor to treat public patients or a private parking facility adjacent to a public facility).

Financial Liability Model (see paragraphs AG37-AG46)

18. ***Where the grantor has an unconditional obligation to pay cash or another financial asset[5] to the operator for the construction, development, acquisition, or upgrade of a service concession asset, the grantor should account for the liability recognised in accordance with paragraph 14 as a financial liability[6].***

19. The grantor has an unconditional obligation to pay cash if it has guaranteed to pay the operator:

(a) Specified or determinable amounts; or

(b) The shortfall, if any, between amounts received by the operator from users of the public service and any specified or determinable amounts referred to in paragraph 19(a), even if the payment is contingent on the operator ensuring that the service concession asset meets specified quality or efficiency requirements.

20. [Refer to Appendix 1]

21. ***The grantor should allocate the payments to the operator and account for them according to their substance as a reduction in the liability recognised in accordance with paragraph 14, a finance charge, and charges for services provided by the operator.***

22. ***The finance charge and charges for services provided by the operator in a service concession arrangement determined in accordance with paragraph 21 should be accounted for as expenses.***

23. ***Where the asset and service components of a service concession arrangement are separately identifiable, the service components of payments from the grantor to the operator should be allocated by reference to the relative fair values of the service concession asset and the services. Where the asset and service components are not separately identifiable, the service component of payments from the grantor to the operator is determined using estimation techniques.***

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[5] A **financial asset** is any asset that is:

(a) cash;
(b) an equity instrument of another entity;
(c) a contractual right:
  (i) to receive cash or another financial asset from another entity;
  (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

[6] Financial Liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entities under conditions that are potentially unfavourable to the entity.

Grant of a Right to the Operator Model (see paragraphs AG47-AG49)

24. ***Where the grantor does not have an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, and grants the operator the right to earn revenue from third-party users or another revenue-generating asset, the grantor should account for the liability recognised in accordance with paragraph 14 as the unearned portion of the revenue arising from the exchange of assets between the grantor and the operator.***

25. ***The grantor should recognise revenue and reduce the liability recognised in accordance with paragraph 24 according to the economic substance of the service concession arrangement.***

26. Where the grantor compensates the operator for the service concession asset and the provision of services by granting the operator the right to earn revenue from third-party users of the service concession asset or another revenue-generating asset, the exchange is regarded as a transaction that generates revenue. As the right granted to the operator is effective for the period of the service concession arrangement, the grantor does not recognise revenue from the exchange immediately. Instead, a liability is recognised for any portion of the revenue that is not yet earned. The revenue is recognised according to the economic substance of the service concession arrangement, and the liability is reduced as revenue is recognised.

Dividing the Arrangement (see paragraph AG50)

27. ***If the grantor pays for the construction, development, acquisition, or upgrade of a service concession asset partly by incurring a financial liability and partly by the grant of a right to the operator, it is necessary to account separately for each part of the total liability recognised in accordance with paragraph 14. The amount initially recognised for the total liability should be the same amount as that specified in paragraph 15.***

28 ***The grantor should account for each part of the liability referred to in paragraph 27 in accordance with paragraphs 18-26.***

Other Liabilities, Commitments, Contingent Liabilities and Contingent Assets (see paragraphs AG51-AG54)

29. ***The grantor should account for other liabilities, commitments, contingent liabilities, and contingent assets arising from a service concession arrangement in accordance with ASLB 19, 'Provisions, Contingent Liabilities and Contingent Assets'.***

Other Revenues (see paragraphs AG55-AG64)

30. ***The grantor should account for revenues from a service concession arrangement, other than those specified in paragraphs 24-26, in accordance with ASLB 9, 'Revenue from Exchange Transactions'.***

Presentation and Disclosure (see paragraphs AG65-AG67)

31. ***The grantor should present information in accordance with ASLB 1.***

32. ***All aspects of a service concession arrangement should be considered in determining the appropriate disclosures in the notes. A grantor should 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) The carrying amount of service concession assets recognized at the end of 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; and

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

33. The disclosures required in accordance with paragraph 32 are provided individually for each material service concession arrangement or in aggregate for service concession arrangements involving services of a similar nature (e.g., toll collections or water treatment services). This disclosure is in addition to the disclosures required in ASLB 17 and/or ASLB 31 by class of assets. Service concession assets within service concession arrangements of a similar nature that are reported in aggregate may form a subset of a class of assets disclosed in accordance with ASLB 17 and/or ASLB 31 or may be included in more than one class of assets disclosed in accordance with ASLB 17 and/or ASLB 31. For example, for the purposes of ASLB 17 a toll bridge may be included in the same class as other bridges. For the purposes of this paragraph, the toll bridge may be included with service concession arrangements reported in aggregate as toll roads.

34. [Refer to Appendix 1]

35. [Deleted]

35A-B. [Refer to Appendix 1]

36-37. [Refer to Appendix 1]

Appendix A

Application Guidance

This Appendix is an integral part of ASLB 32.

Scope (see paragraphs 2-7)

AG1. [Refer to Appendix 1]

AG2 Paragraph 9 of this Standard specifies the conditions under which an asset, other than a whole-of-life asset, is within the scope of the Standard. Paragraph 10 of the Standard specifies the condition under which whole-of-life assets are within the scope of the Standard.

Definitions (see paragraph 8)

AG3. Paragraph 8 defines a service concession arrangement. Common features of a service concession arrangement are:

(a) The grantor is a Local Body;

(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 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 binding arrangement that sets out performance standards, mechanisms for adjusting prices, and arrangements for arbitrating disputes.

AG4. Paragraph 8 defines a service concession asset. Examples of service concession assets are: roads, bridges, tunnels, hospitals, water distribution facilities and other non-current tangible or intangible assets used for administrative purposes in delivering public services.

AG4A. Service concessions are different from leases because in service concessions the grantor retains control over the use of the infrastructure, by controlling or regulating what services the operator must provide, to whom it must provide them, and at what price whereas, in leases the lessor transfers the right to use an underlying asset. A lessor does not necessary retain significant residual interest throughout the period of the arrangement. In service concession arrangement, operator provides public services related to the service concession asset on behalf of the grantor, whereas, in a lease the lessee does not act on behalf of the lessor. In a lease, an obligation to permit the lessee access to the underlying asset is not a liability because there would appear to be no expected outflow of future economic benefits from the lessor, which is an essential component of the definition of a liability, whereas in a service concession arrangement, a liability is also recognised by the grantor in respect of the service concession asset as per the Standard.

AG4B.Where an arrangement does not meet the conditions for recognition of a service concession asset in accordance with ASLB 32 and the arrangement contains an identifiable operating lease or finance lease as defined in ASLB 13, '*Leases*' then the provisions of ASLB 13 are applied in accounting for the lease component of the arrangement.

AG4C. Local Bodies may also enter a variety of agreements for the provision of goods and/or services, which necessarily involve the use of dedicated assets. In some of these agreements, it may not be clear whether a service concession arrangement as defined in ASLB 32 or a lease, has arisen. In these cases, professional judgment is exercised, and if a service concession arrangement has arisen this Standard is applied; if a service concession arrangement has not arisen, entities account for those agreements by applying provisions of other relevant ASLBs.

Recognition and Initial Measurement of a Service Concession Asset (see paragraphs 9-13)

Recognition of a Service *Concession Asset*

AG5. The assessment of whether a service concession asset should be recognised in accordance with paragraph 9 (or paragraph 10 for whole-of-life asset) is made on the basis of all of the facts and circumstances of the arrangement.

AG6. The control or regulation referred to in paragraph 9(a) could be by a binding arrangement, or otherwise (such as through a third party regulator that regulates other entities that operate in the same industry or sector as the grantor), and includes circumstances in which the grantor buys all of the output as well as those in which some or all of the output is bought by other users. The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity's assets from those public goods that all entities have access to and benefit from. The binding arrangement sets the initial prices to be levied by the operator and regulates price revisions over the period of the service concession arrangement. When the binding arrangement conveys the right to control the use of the service concession asset to the grantor, the asset meets the condition specified in paragraph 9(a) regarding control in relation to those to whom the operator must provide services.

AG7. For the purpose of paragraph 9(a) the grantor does not need to have complete control of the price: it is sufficient for the price to be regulated by the grantor, binding arrangement, or a third party regulator that regulates other entities that operate in the same industry, or sector (e.g., hospitals, schools, or universities) as the grantor (e.g., by a capping mechanism). However, the condition is applied to the substance of the agreement. Non-substantive features, such as a cap that will apply only in remote circumstances, are ignored. Conversely, if, for example, an arrangement purports to give the operator freedom to set prices, but any excess profit is returned to the grantor, the operator's return is capped and the price element of the control test is met.

AG8. Many local-self governments have the power to regulate the behaviour of entities operating in certain sectors of the economy, either directly, or through specifically created agencies. For the purpose of paragraph 9(a), the broad regulatory powers described above do not constitute control. In this Standard, the term "regulate' is intended to be applied only in the context of the specific terms and conditions of the service concession arrangement. However, in both cases, the control of the service concession asset is derived from either the contract, or similar binding arrangement, or from the specific regulation and not from the fact that the grantor is a local body that is related to the regulator.

AG9. For the purpose of paragraph 9(a), the grantor's control over any significant residual interest should both restrict the operator's practical ability to sell or pledge the asset and give the grantor a continuing right of use throughout the period of the service concession arrangement. The residual interest in the asset is the estimated current value of the asset as if it were already of the age and in the condition expected at the end of the period of the service concession arrangement.

AG10. Control should be distinguished from management. If the grantor retains both the degree of control described in paragraph 9(a) and any significant residual interest in the asset, the operator is only managing the asset on the grantor's behalf-even though, in many cases, it may have wide managerial discretion.

AG11. The conditions in paragraphs 9(a) and 9(b) together identify when the asset, including any replacements required, is controlled by the grantor for the whole of its economic life. For example, if the operator has to replace part of an asset during the period of the arrangement (e.g., the top layer of a road or the roof of a building), the asset is considered as a whole. Thus the condition in paragraph 9(a) is met for the whole of the asset, including the part that is replaced, if the grantor controls any significant residual interest in the final replacement of that part.

AG12. Sometimes the use of a service concession asset is partly regulated in the manner described in paragraph 9(a) 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 ASLB 26, '*Impairment of Cash-Generating Assets'* is analysed separately to determine whether the condition set out in paragraph 9(a) 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's medical test labs) 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 paragraph 9(a), the existence of ancillary activities does not detract from the grantor's control of the service concession asset.

AG13. The operator may have a right to use the separable asset described in paragraph AG12(a), or the facilities used to provide ancillary unregulated services described in paragraph AG12(b). In either case, there may in substance be a lease from the grantor to the operator; if so, it is accounted for in accordance with ASLB 13.

Existing Asset of the Grantor

AG14. The arrangement may involve an existing asset of the grantor:

(a) To which the grantor gives the operator access for the purpose of the service concession arrangement; or

(b) To which the grantor gives the operator access for the purpose of generating revenues as compensation for the service concession asset.

AG15. The requirement in paragraph 11 is to measure assets recognised in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset) initially at fair value. Existing assets of the grantor used in the service concession arrangement are reclassified rather than recognised under this Standard. Only an upgrade to an existing asset of the grantor (e.g., that increases its capacity) is recognised as a service concession asset in accordance with paragraph 9, or paragraph 10 for a whole-of-life asset).

AG16. In applying the impairment tests in ASLB 17 or ASLB 31, as appropriate, the grantor does not necessarily consider the granting of the service concession to the operator as a circumstance that causes impairment, unless there has been a change in use of the asset that affects its future economic benefits or service potential. The grantor refers to ASLB 21, '*Impairment of Non-Cash-Generating Assets'* or ASLB 26, as appropriate, to determine whether any of the indicators of impairment have been triggered under such circumstances.

AG17. If the asset no longer meets the conditions for recognition in paragraph 9 (or paragraph 10 for a whole-of-life asset), the grantor follows the derecognition principles in ASLB 17 or ASLB 31, as appropriate. For example, if the asset is transferred to the operator on a permanent basis, it is derecognised. If the asset is transferred on a temporary basis, the grantor considers the substance of this term of the service concession arrangement in determining whether the asset should be derecognised. In such cases, the grantor also considers whether the arrangement is a lease transaction or a sale and leaseback transaction that should be accounted for in accordance with ASLB 13.

AGl8. When the service concession arrangement involves upgrading an existing asset of the grantor such that the future economic benefits or service potential the asset will provide are increased, the upgrade is assessed to determine whether it meets the conditions for recognition in paragraph 9 (or paragraph 10 for a whole-of-life asset). If those conditions are met, the upgrade is recognised and measured in accordance with this Standard.

Existing Asset of the Operator

AG19. The operator may provide an asset for use in the service concession arrangement that it has not constructed, developed, or acquired. If the arrangement involves an existing asset of the operator which the operator uses for the purpose of the service concession arrangement, the grantor determines whether the asset meets the conditions in paragraph 9 (or paragraph 10 for a whole-of-life asset). If the conditions for recognition are met, the grantor recognises the asset as a service concession asset and accounts for it in accordance with this Standard.

Constructed or Developed Asset

AG20. Where a constructed or developed asset meets the conditions in paragraph 9 (or paragraph 10 for a whole-of-life asset) the grantor recognises and measures the asset in accordance with this Standard. ASLB 17 or ASLB 31, as appropriate, set out the criteria for when a service concession asset should be recognised. Both ASLB 17 and ASLB 31 require that an asset should be recognised if, and only if:

(a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and

(b) The cost or fair value of the item can be measured reliably[7].

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[7] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent..

AG21. Those criteria, together with the specific terms and conditions of the binding arrangement, need to be considered in determining whether to recognise the service concession asset during the period in which the asset is constructed or developed. For both property, plant, and equipment and intangible assets, the recognition criteria may be met during the construction or development period, and, if so, the grantor will normally recognise the service concession asset during that period.

AG22**.** The first recognition criterion requires the flow of economic benefits or service potential to the grantor. From the grantor's point of view, the primary purpose of a service concession asset is to provide service potential on behalf of the local body grantor. Similar to an asset the grantor constructs or develops for its own use, the grantor would assess, at the time the costs of construction or development are incurred, the terms of the binding arrangement to determine whether the service potential of the service concession asset would flow to the grantor at that time.

AG23. The second recognition criterion requires that the initial cost or fair value of the asset can be measured reliably. Accordingly, to meet the recognition criteria in ASLB 17 or ASLB 31, as appropriate, the grantor must have reliable information about the cost or fair value of the asset during its construction or development. For example, if the service concession arrangement requires the operator to provide the grantor with progress reports during the asset's construction or development, the costs incurred may be measurable, and would therefore meet the recognition principle in ASLB 17 for constructed assets or in ASLB 31 for developed assets. Also, where the grantor has little ability to avoid accepting an asset constructed or developed to meet the specifications of the contract or a similar binding arrangement, the costs are recognised as progress is made towards completion of the asset. Thus, the grantor recognises a service concession asset and an associated liability.

Measurement of Service Concession Assets

AG24. Paragraph 11 requires service concession assets recognised in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset) to be measured initially at fair value. In particular, fair value is used to determine the cost of a constructed or developed service concession asset or the cost of any upgrades to existing assets, on initial recognition. The requirement in paragraph 11 does not apply to existing assets of the grantor that are reclassified as service concession assets in accordance with paragraph 12 of this Standard. The use of fair value on initial recognition does not constitute a revaluation under ASLB 17 or ASLB 31.

AG25. The type of compensation exchanged between the grantor and the operator affects how the fair value of the service concession asset is determined on initial recognition. The paragraphs that follow outline how to determine the fair value of the asset on initial recognition based on the type of compensation exchanged:

(a) Where payments are made by the grantor to the operator, the fair value on initial recognition of the asset represents the portion of the payments paid to the operator for the asset.

(b) Where the grantor does not make payments to the operator for the asset, the asset is accounted for in the same way as an exchange of non-monetary assets in ASLB 17 and ASLB 31.

Types of Compensation

AG26. Service concession arrangements are rarely if ever the same; technical requirements vary from local body to local body. Furthermore, the terms of the arrangement may also depend on the contract laws, where they exist, may contain terms that do not have to be repeated in individual contracts.

AG27. Depending on the terms of the service concession arrangement, the grantor may compensate the operator for the service concession asset and service provision by any combination of the following:

(a) Making payments (e.g., cash) to the operator,

(b) Compensating the operator by other means, such as:

(i) Granting the operator the right to earn revenue from third-party users of the service concession asset; or

(ii) Granting the operator access to another revenue-generating asset for its use.

AG28. Where the grantor compensates the operator for the service concession asset by making payments to the operator, the asset and service components of the payments may be separable (e.g., the binding arrangement specifies the amount of the predetermined series of payments to be allocated to the service concession asset) or inseparable.

Separable Payments

AG29. A service concession arrangement may be separable in a variety of circumstances, including, but not limited to, the following:

(a) Part of a payment stream that varies according to the availability of the service concession assets itself and another part that varies according to usage or performance of certain services are identified;

(b) Different components of the service concession arrangement run for different periods or can be terminated separately. For example, an individual service component can be terminated without affecting the continuation of the rest of the arrangement; or

(c) Different components of the service concession arrangement can be renegotiated separately. For example, a service component is market tested and some or all of the cost increases or reductions are passed on to the grantor in such a way that the part of the payment by the grantor that relates specifically to that service can be identified.

AG30. ASLB 17 and ASLB 31 require initial measurement of an asset acquired in an exchange transaction at cost, which is the cash price equivalent of the asset. For exchange transactions, the transaction price is considered to be fair value, unless indicated otherwise. When the asset and service components of payments are separable, the cash price equivalent of the service concession asset is the present value of the service concession asset component of the payments. However, if the present value of the asset portion of the payments is greater than fair value, the service concession asset is initially measured at its fair value.

Inseparable Payments

AG31. Where the asset and service component of payments by the grantor to the operator are not separable, the fair value in paragraph 11 is determined using estimation techniques.

AG32. For the purpose of applying the requirements of this Standard, payments and other consideration required by the arrangement are allocated at the inception of the arrangement or upon a reassessment of the arrangement into those for the service concession asset and those for other components of the service concession arrangement (e.g., maintenance and operation services) on the basis of their relative fair values. The fair value of the service concession asset includes only amounts related to the asset and excludes amounts for other components of the service concession arrangement. In some cases, allocating the payments for the asset from payments for other components of the service concession arrangement will require the grantor to use an estimation technique. For example, a grantor may estimate the payments related to the asset by reference to the fair value of a comparable asset in an agreement that contains no other components, or by estimating the payments for the other components in the service concession arrangement by reference to comparable arrangements and then deducting these payments from the total payments under the arrangement.

Operator Receives Other Forms of Compensation

AG33. The types of transactions referred to in paragraph 17(b) are non-monetary exchange transactions. Paragraph 38 of ASLB 17 and paragraph 44 of ASLB 31, as appropriate, provide guidance on these circumstances.

AG34. When the operator is granted the right to earn revenue from third-party users of the service concession asset, or another revenue-generating asset, or receives non-cash compensation from the grantor, the grantor does not incur a cost directly for acquiring the service concession asset. These forms of compensation to the operator are intended to compensate the operator both for the cost of the service concession asset and for operating it during the term of the service concession arrangement. The grantor therefore needs to initially measure the asset component in a manner consistent with paragraph 11.

Subsequent Measurement

AG35. After initial recognition, a grantor applies ASLB 17 and ASLB 31 to the subsequent measurement and derecognition of a service concession asset. ASLB 21 and ASLB 26 are also applied in considering whether there is any indication that a service concession asset is impaired. These requirements in these Standards are applied to all assets recognised or classified as service concession assets in accordance with this Standard.

Recognition and Measurement of Liabilities (see paragraphs 14-28)

AG36. The grantor recognises a liability in accordance with paragraph 14 only when a service concession asset is recognised in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset). The nature of the liability recognised in accordance with paragraph 14 differs in each of the circumstances described in paragraph AG 25 according to its substance.

The Financial Liability Model (see paragraphs 18-23)

AG37. When the grantor has an unconditional obligation to make a predetermined series of payments to the operator, the liability is a financial liability. The grantor has an unconditional obligation if it has little, if any, discretion to avoid the obligation usually because of the binding arrangement with the operator being enforceable by law.

AG38. When the grantor provides compensation to the operator for the cost of the service concession asset and service provision in the form of a predetermined series of payments, an amount reflecting the portion of the predetermined series of payments that pertains to the asset is recognised as a liability in accordance with paragraph 14. This liability does not include the finance charge and service components of the payments specified in paragraph 2l.

AG39. Where the grantor makes any payments to the operator in advance of the service concession asset being recognised, the grantor accounts for those payments as prepayments.

AG40. The finance charge specified in paragraph 21 are calculated using the effective interest method[8]. The finance Charge is determined based on the operator's cost of capital specific to the service concession asset, if this is practicable to determine.

[8] The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest revenue or interest expense over the relevant period. When calculating the effective interest rate, an entity should estimate cash flows considering all contractual terms.

AG41. 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.

AG42. 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 (e.g., a lease of a similar asset, in a similar location and for a similar term). The estimate of the rate should be reviewed together with:

(a) The present value of the payments;

(b) The assumed fair value of the asset; and

(c) The assumed residual value, to ensure all figures are reasonable and mutually consistent.

AG43. In cases when the grantor takes part in the financing (e.g., by lending the operator the funds to construct develop, acquire, or upgrade a service concession asset, or through guarantees), it may be appropriate to use the grantor's incremental borrowing rate to determine the finance charge.

AG44. The interest rate used to determine the finance charge may not be subsequently changed unless the asset component or the whole of the arrangement is renegotiated.

AG45. The finance charge related to the liability in a service concession arrangement is presented consistently with other finance charges.

AG46. The service component of payments determined in accordance with paragraph 21 is ordinarily recognised evenly over the term of the service concession arrangement because this pattern of recognition best corresponds to the service provision. In cases when specific expenses are required to be separately compensated, and their timing is known, such expenses are recognised as incurred.

Grant of a Right to the Operator Model (see paragraphs 24-26)

AG47. When the grantor compensates the operator for the service concession asset and service provision by granting the operator the right to earn revenue from third-party users of the service concession asset, the operator is granted the right to earn revenue over the period of the service concession arrangement. Likewise, the grantor earns the benefit associated with the assets received in the service concession arrangement in exchange for the right granted to the operator over the period of the arrangement. Accordingly, the revenue is not recognised immediately. Instead, a liability is recognised for any portion of the revenue that is not yet earned. Revenue is recognised and the liability reduced in accordance with paragraph 25 based on the economic substance of the service concession arrangement, usually as access to the service concession asset is provided to the operator over the term of the service concession arrangement. As described in paragraph AG27, the grantor may compensate the operator by a combination of payments and granting a right to earn revenue directly from third-party users. In such cases, if the operator's right to earn such third-party revenues significantly reduces or eliminates the grantor's predetermined series of payments to the operator, another basis may be more appropriate for reducing the liability (e.g., the term over which the grantor's future predetermined series of payments are reduced or eliminated).

AG48. When the grantor compensates the operator for the service concession asset and service by the provision of a revenue-generating asset, other than the service concession asset, revenue is recognised and the liability recognised in accordance with paragraph 24 is reduced in a manner similar to that described in paragraph AG47. In such cases, the grantor also considers the derecognition requirements in ASLB 17 or ASLB 31, as appropriate.

AG49. In some cases under the grant of a right to the operator model, there may be a "shadow toll". Some shadow tolls are paid for the construction, development, acquisition, or upgrade of the service concession asset, and its operation by the operator. In cases where the grantor pays the operator solely for the usage of the service concession asset by third-party users, such payment is compensation in exchange for the usage and not the acquisition of the service concession asset. Accordingly, such payments do not relate to the liability specified in paragraph AG 48. The grantor compensates the operator only to the extent of the usage of the service concession asset, and accounts for such payments as expenses in accordance with ASLB 1.

Dividing the Arrangement (see paragraphs 27-28)

AG50. If the operator is compensated for the service concession asset partly by a predetermined series of payments and partly by receiving the right to earn revenue from third-party use of either the service concession asset or another revenue-generating asset, it is necessary to account separately for each portion of the liability related to the grantor's consideration. In these circumstances, the consideration to the operator is divided into a financial liability portion for the predetermined series of payments and a liability portion for the right granted to the operator to earn revenue from third-party use of the service concession asset or another revenue-generating asset. Each portion of the liability is recognized initially at the fair value of the consideration paid or payable.

Other Liabilities, Commitments, Contingent Liabilities and Contingent Assets (see paragraph 29)

AG51. Service concession arrangements may include various forms of financial guarantees (e.g., a guarantee, security, or indemnity related to the debt incurred by the operator to finance construction, development, acquisition, or upgrade of a service concession asset), or performance guarantees (e.g., guarantee of minimum revenue streams, including compensation for shortfalls).

AG52. Certain guarantees made by a grantor may meet the definition of a financial guarantee contract. The grantor determines whether guarantees made by the grantor as part of a service concession arrangement are financial guarantee contract. The accounting for the guarantee has not been dealt in this Standard.

AG53. [Refer to Appendix 1]

AG54. Contingent assets or liabilities may arise from disputes over the terms of the service concession arrangement. Such contingencies are accounted for in accordance with ASLB 19.

Other Revenues (see paragraph 30)

AG55. The operator may compensate the grantor for access to the service concession asset by providing the grantor with a series of predetermined inflows of resources, including the following:

(a) An upfront payment or a stream of payments,

(b) Revenue-sharing provisions;

(c) A reduction in a predetermined series of payments the grantor is required to make to the operator, and

(d) Rent payments for providing the operator access to a revenue-generating asset.

AG56. When the operator provides an 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, the grantor accounts for these payments in accordance with ASLB 9. The timing of the revenue recognition is determined by the terms and conditions of the service concession arrangement that specify the grantor's obligation to provide the operator with access to the service concession asset.

AG57. Where the operator provides an upfront payment, a stream of payments, or other consideration to the grantor in addition to the service concession asset, for the right to earn the revenue from third-party use of the service concession asset or another revenue-generating asset, any portion of the payments received from the operator not earned in the accounting period is recognised as a liability until the conditions for revenue recognition are met.

AG58. When the conditions for revenue recognition are met, the liability is reduced as the revenue is recognised in accordance with paragraph 30.

AG59. However, given the varying nature of the types of assets that may be used in service concession arrangements, and the number of years over which the arrangements operate, there may be more appropriate alternative methods for recognising revenue associated with the inflows specified in the binding arrangement that better reflect the operator's economic consumption of their access to the service concession asset and/or the time value of money. For example, an annuity method that applies a compounding interest factor that more evenly recognises revenue on a discounted basis, as opposed to on a nominal basis, may be more appropriate for a service concession arrangement with a term extending over several decades.

AG60. When an upfront payment is received from the operator, the revenue is recognised in a way that best reflects the operator's economic consumption of its access to the service concession asset and/or the time value of money. For example, when the operator is required to pay annual installments over the term of the service concession arrangement or predetermined sums for specific years, the revenue is recognised over the specified term.

AG61. For service concession arrangements under which the operator is granted the right to earn revenue from third-party users of the service concession asset, revenue relates to the inflow of economic benefits received as the services are provided and is therefore recognised on the same basis as the liability is reduced. In these cases, the grantor will often negotiate to include a revenue-sharing provision in the arrangement with the operator. Revenue -sharing as part of a service concession arrangement may be based on all revenue earned by the operator, or on revenue above a certain threshold, or on revenue more than the operator needs to achieve a specified rate of return.

AG62. The grantor recognises revenue generated from revenue-sharing provisions in service concession arrangements as it is earned, in accordance with the substance of the relevant agreement, after any contingent event (e.g., the achievement of a revenue threshold) is deemed to have occurred. The grantor applies ASLB 19 to determine when the contingent event has occurred.

AG63. A reduction in the future predetermined series of payments the grantor would otherwise be required to make to the operator provides the grantor with upfront non-cash consideration. Such revenue is recognised as the liability is reduced.

AG64. When the operator pays a nominal rent for access to a revenue-generating asset the rental revenue is recognised in accordance with ASLB 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers).*

Presentation and Disclosure (see paragraphs 31-33)

AG65. Disclosures relating to various aspects of service concession arrangements may be addressed in existing Standards. This Standard 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, the grantor follows the disclosure requirements of that Standard in addition to those set out in paragraph 32.

AG66. ASLB 1 requires finance costs to be presented separately in the income and expenditure statement. The finance charge determined in accordance with paragraph 21 is included in this item.

AG67. In addition to the disclosures outlined in paragraphs 31-33, the grantor also applies the relevant presentation and disclosure requirements in other ASLBs as they pertain to assets, liabilities, revenues, and expenses recognised under this Standard.

AG68-73. [Deleted]

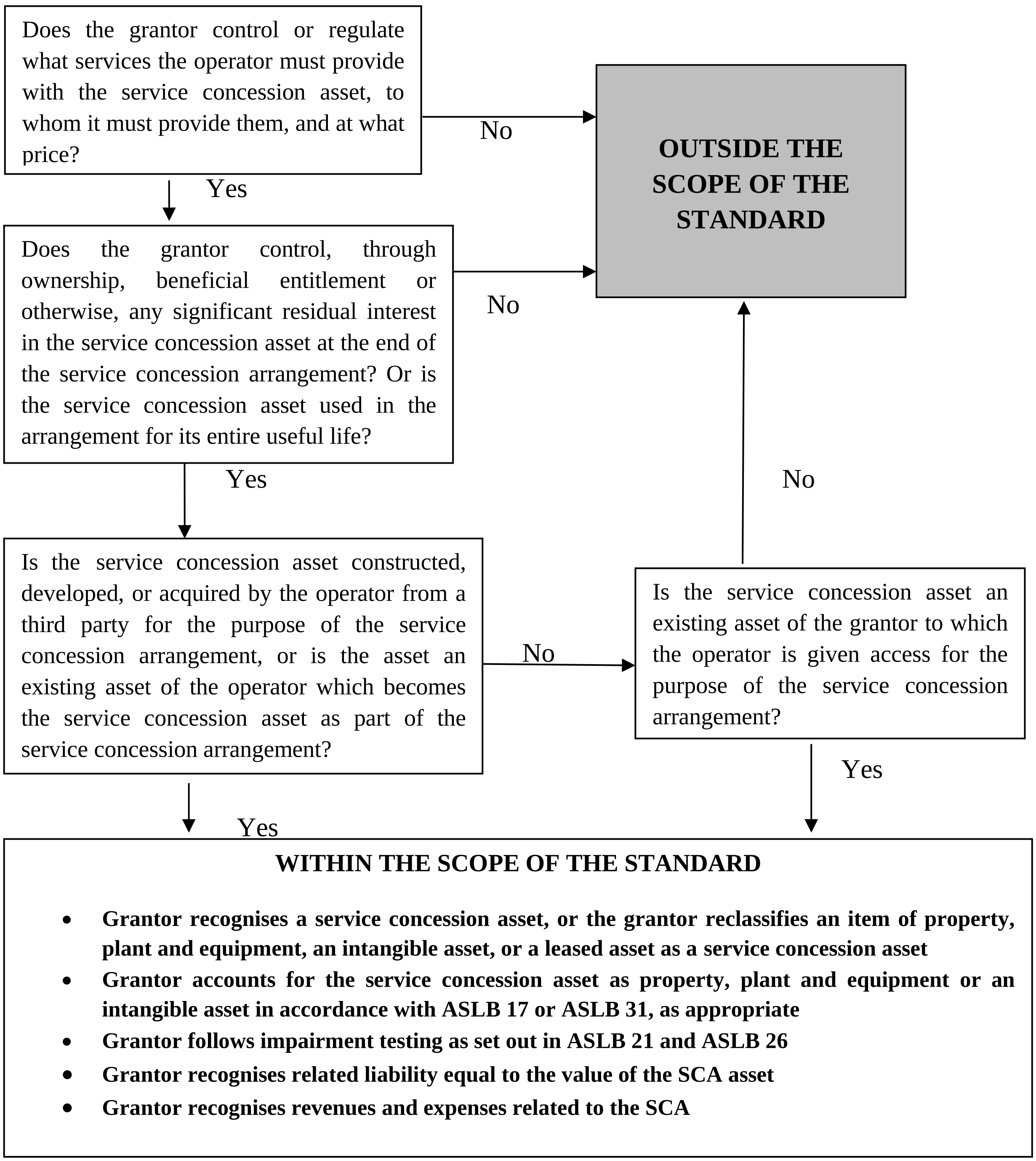
Implementation Guidance

This guidance accompanies, but is *not part of, ASLB 32.*

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of ASLB 32.

Accounting Framework for Service Concession Arrangements

IG2. The diagram below summarises the accounting for service concession arrangements established by ASLB 32.



References to ASLBs that Apply to Typical Types of Arrangements Involving an Asset Combined with Provision of a Service

IG3. The table sets out the typical types of arrangements for private sector participation in the provision of local body services and provides references to ASLBs that apply to those arrangements. The list of arrangements types is not exhaustive. The purpose of the table is to highlight the continuum of arrangements.

IG4. Shaded text shows arrangements within the scope of ASLB 32.

<table>
<tr><th>Category</th><th>Lessee</th><th colspan="3">Service provider</th><th colspan="2">Owner</th></tr>
<tr><td>Typical arrangement types</td><td>Lease (e.g., operator leases asset from grantor)</td><td>Service and/or maintenance contract (specific tasks e.g., debt collection, facility management)</td><td>Rehabilitate-operate-transfer</td><td>Build-operate-transfer</td><td>Build-own-operate</td><td>100% Divestment/ Privatisation/ Corporation</td></tr>
<tr><td>Asset ownership</td><td colspan="4">Grantor</td><td colspan="2">Operator</td></tr>
<tr><td>Capital investment</td><td colspan="2">Grantor</td><td colspan="4">Operator</td></tr>
<tr><td>Demand risk</td><td>Shared</td><td>Grantor</td><td colspan="2">Grantor and/ or Operator</td><td colspan="2">Operator</td></tr>
<tr><td>Typical duration</td><td>8-20 years</td><td>1-5 years</td><td colspan="3">25-30 years</td><td>Indefinite (or may be limited by binding arrangement or license)</td></tr>
<tr><td>Residual interest</td><td colspan="4">Grantor</td><td colspan="2">Operator</td></tr>
<tr><td>Relevant ASLBs</td><td>ASLB 13</td><td>ASLB 1</td><td colspan="2">This ASLB/ ASLB 17/ ASLB 31</td><td colspan="2">ASLB 17/ ASLB 31(derecognition) ASLB 9 (revenue recognition)</td></tr>
</table>

Illustrative Examples

These examples accompany, but are not part of, ASLB 32.

IE1. These examples deal with only three of many possible types of service concession arrangements. Their purpose is to illustrate the accounting treatment for some features that are commonly found in practice. To make the illustrations as clear as possible, it has been assumed that the term of the service concession arrangement is only ten years and that the operator's annual receipts are constant over that period. In practice, terms may be much longer and annual revenues may increase with time.

Arrangement Terms (Common to All Three Examples)

IE2. In these examples, monetary amounts are denominated in "rupees" (Rs.).

IE3. These terms are common to the three examples that follow:

IE4. The terms of the arrangement require an operator to construct a road-completing construction within two years - and maintain and operate the road to a specified standard for eight years (i.e., years 3-10). The arrangement is within the scope of this Standard and the road meets the conditions for recognition of a service concession asset in paragraph 9 (or paragraph 10 for a whole-of-life asset).

IE5. The terms of the arrangement also require the operator to resurface the road when the original surface has deteriorated below a specified condition. The operator estimates that it will have to undertake the resurfacing at the end of year 8 at a fair value of Rs. 110. The compensation to the operator for this service is included in the predetermined series of payments and/or the revenue the operator has the right to earn from the service concession asset or another revenue-generating asset granted to the operator by the grantor.

IE6. It is assumed that the original road surface is a separate component of the service concession asset and meets the criteria for recognition specified in ASLB 17 when the service concession asset is initially recognised. It is further assumed that there is sufficient certainty regarding the timing and amount of the resurfacing work for it to be recognised as a separate component when the resurfacing occurs.[9] It is assumed that the expected cost of the resurfacing can be used to estimate the initial cost of the surface layers recognised as a separate component of the service concession asset. The road surface is therefore recognised as a separate component of the initial fair value of the service concession asset and measured at the estimated fair value of the resurfacing and depreciated over years 3-8. This depreciation period is shorter than that for the road base, and takes into account that resurfacing would ordinarily occur over six years, rather than

[9] If this was not the case (e.g., where the operator might resurface in future, or might incur additional maintenance over the period of the service concession arrangement), it might not be appropriate to recognise a component.

25 years. During the construction phase, it is assumed that only the road base is constructed in year 1, and that the road only becomes ready to use at the end of year 2.

IE7. Recognition of the replacement component of the road surface as a separate component of the service concession asset in year 8 also results in an increase in the liability recognised by the grantor. Where the liability relates to the grant of a right to the operator model, additional revenue in respect of this increase is recognised evenly over the term of the arrangement. However, if the expenditure represented an improvement in service potential such as a new traffic lane rather than restoration to original service capability then it would be appropriate to instead recognise revenue relevant to that improvement only once it has occurred.

IE8. At the beginning of year 3, the total fair value of the road is Rs. 1,050, comprised of Rs. 940 related to the construction of the base layers and Rs. 110 related to construction of the surface layers. The fair value of the surface layers is used to estimate the fair value of the resurfacing (which is treated as a replacement component in accordance with ASLB 17). The estimated life of surface layers (i.e., six years) is also used to estimate the depreciation of the replacement component in years 9 and 10. The total initial fair value of the road is lower than the present value of the series of predetermined payments pertaining to the asset, where applicable.

IE9. The road base has an economic life of 25 years. Annual depreciation is taken by the grantor on a straight-line basis. It is therefore Rs. 38 (940/25) for the base layers. The surface layers are depreciated over 6 years (years 3-8 for the original component, and starting in year 9 for the replacement component). Annual depreciation related to the surface layers is Rs. 18 (Rs.110/6 = 18 approx.). There is no impairment in the value of the road over the term of the service concession arrangement.

IE10. The operator's cost of capital is not practicable to determine. The rate implicit in the service concession arrangement specific to the asset is 6.18%.

IE11. It is assumed that all cash flows take place at the end of the year.

IE12. It is assumed that the time value of money is not significant. Paragraph AG59 provides guidance on methods that may be appropriate where the time value of money is significant.

IE13. At the end of year 10, the arrangement will end. At the end of the arrangement, the operator will transfer the operation of the road to the grantor.

IE14. The total compensation to the operator under each of the three examples is inclusive of each of the components of the service concession arrangement and reflects the fair values for each of the services, which are set out in Exhibit 1.

IE15. The grantor's accounting policy for property, plant, and equipment is to recognise such assets using the cost model specified in ASLB 17.

Exhibit 1: Fair Values of the Components of the Arrangement (Rupees)

Contact Component	Fair Value
Road –base layers	940
Road -original surface layers	110
Total FV of road	1,050
Annual service component	12
Effective interest rate	6.18%

Example 1: The Grantor makes a Predetermined Series of Payments to the Operator

Additional Terms

IEl6. The terms of the arrangement require the grantor to pay the operator Rs. 200 per year in years 3-10 for making the road available to the public. The total consideration (payment of Rs. 200 in each of years 3-10) reflects the fair values for each of the services indicated in Exhibit 1. These payments are intended to cover the cost of constructing the road, annual operating costs of Rs. 12 and reimbursement to the operator for the cost of resurfacing the road in year 8 of Rs. 110.

Financial Statement Impact

IE17. The grantor initially recognises the service concession asset as property, plant, and equipment at its fair value (total Rs. 1,050, comprised of Rs. 940 related to construction of the base layers and Rs. 110 related to construction of the original surface layers). The asset is recognised as it is constructed (Rs. 525 in year 1 and Rs. 525 in year 2). Depreciation is taken annually (Rs. 56, comprised of Rs. 38 for the base layers and Rs. 18 for the surface layers), starting from year 3.

IE18. The grantor initially recognises a financial liability at fair value equal to the fair value of the asset under construction at the end of year 1 (Rs. 525). The liability is increased at the end of year 2 to reflect both the fair value of the additional construction (Rs. 525) and the finance charge on the outstanding financial liability. Because the amount of the predetermined payment related to the service component of the service concession arrangement is known, the grantor is able to determine the amount of the payment that reduces the liability. A finance charge at the implicit rate of 6.18% is recognised annually. The liability is subsequently measured at amortised cost, i.e., the amount initially recognised plus the finance charge on that amount calculated using the effective interest method minus repayments.

IE19. The compensation for the road resurfacing is included in the predetermined series of payments. There is no direct cash flow impact related to the road resurfacing; however the grantor recognises the resurfacing as an asset when the work is undertaken and recognises depreciation expense of Rs. 110/6 = Rs. 18, beginning in year 9.

IE20. The compensation for maintenance and operating the road (Rs. 12) is included in the predetermined series of payments. There is no cash flow impact related to this service expense; however, the grantor recognises an expense annually.

IE21. The costs of services are accounted for in accordance with ASLB 1.

Overview of Cash Flows, Income and Expenditure Statement, and Balance Sheet

IE22. The grantor's cash flows, income and expenditure statement, and balance sheet over the duration of the arrangement will be as illustrated in Tables 1.1 to 1.3. In addition, Table 1.4 shows the changes in the financial liability.

Table 1.1 Cash Flows (Rupees)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**Total**
Predetermined series of payments	-	-	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(1,600)
Net inflow/(outflow)	-	-	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(1,600)

Table 1.2 Income and Expenditure Statement (Rupees)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**Total**
Service expense	-	-	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(96)
Finance charge	-	(32)	(67)	(59)	(51)	(43)	(34)	(25)	(22)	(11)	(344)
Depreciation – base layers	-	-	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(304)
Depreciation – original surface layers	-	-	(18)	(19)	(18)	(18)	(19)	(18)	-	-	(110)
Depreciation – replacement surface layers	-	-	-	-	-	-	-	-	(18)	(19)	(37)
Total depreciation	-	-	(56)	(57)	(56)	(56)	(57)	(56)	(56)	(57)	(451)
Annual surplus/(deficit)	-	(32)	(135)	(128)	(119)	(111)	(103)	(93)	(90)	(80)	(891)

NOTES:

1. Depreciation in years 3-8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period. Depreciation in years 9 – 10 reflects the depreciation on the new service concession asset component (surface) recognised in year 8.

2. Although these Illustrative Examples use a straight-line depreciation method, it is not intended that this method be used in all cases. Paragraph 76 of ASLB 17 requires that, “The depreciation method should reflect the pattern in which the asset’s future economic benefits or service potential is expected to be consumed by the entity.” Likewise, for intangible assets, paragraph 96 of ASLB 31 requires that, “The depreciable amount of an intangible asset with a finite useful life should be allocated on a systematic basis over its useful life.”

Table 1.3 Balance Sheet (Rupees)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Service concession asset – base layers	525	940	902	864	826	788	750	712	674	636
Service concession asset – original surface layers	-	110	92	73	55	37	18	-	-	-
Service concession asset – replacement surface layers	-	-	-	-	-	-	-	110	92	73
Total Service concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	-	-	(200)	(400)	(600)	(800)	(1,000)	(1,200)	(1,400)	(1,600)
Financial liability	(525)	(1,082)	(961)	(832)	(695)	(550)	(396)	(343)	(177)	-
Cumulative surplus/deficit	-	32	167	295	414	525	628	721	811	891

NOTES:

1. In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognised in accordance with ASLB 17 before the new component of the service concession asset related to the resurfacing is recognised.

2. The new component of the service concession asset related to the resurfacing is recognised in year 8. Years 9-10 reflect deprecation on this additional component (Table 1.2).

3. The financial liability is increased in year 8 for the recognition of the new component of the service concession asset.

Table 1.4 Changes in Financial Liability (Rupees)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Balance brought forward	-	525	1,082	961	832	695	550	396	343	177
Liability recognised along with initial service concession asset	525	525	-	-	-	-	-	-	-	-
Finance charged added to liability prior to payments being made	-	32	-		-	-	-	-	-	-
Portion of predetermined series of payments that reduces the liability*	-	-	(121)	(129)	(137)	(145)	(154)	(163)	(166)	(177)
Liability recognised along with replacement surface layers	-	-	-	-	-	-	-	110	-	-
Balance carried forward	525	1,082	961	832	695	550	396	343	177	-

* This amount is calculated as follows: by reducing finance charge (refer table 1.2) and service expense (refer table 1.2) from predetermined series of payments (refer table 1.1)

Year 3: (200-67-12) = (121),
Year 4: (200-59-12) = (129),
Year 5: (200-51-12) = (137),
Year 6: (200-43-12) = (145),
Year 7: (200-34-12) = (154),
Year 8: (200-25-12) = (163),
Year 9: (200-22-12) = (166), and
Year 10: (200-11-12) = (177).

Example 2: The Grantor Gives the Operator the Right to Charge Users a Toll for Use of the Road

Additional Arrangement Terms

IE23. The terms of the arrangement allow the operator to collect tolls from drivers using the road. The operator forecasts that vehicle numbers will remain constant over the duration of the arrangement and that it will receive tolls of Rs. 200 in each of years 3-10. The total consideration (tolls of Rs. 200 in each of years 3-10) reflects the fair values for each of the services indicated in Exhibit 1, and is intended to cover the cost of constructing the road, annual operating costs of Rs. 12 and reimbursement to the operator for the cost of resurfacing the road in year 8 of Rs. 110.

Financial Statement Impact

IE24. The grantor initially recognises the service concession asset as property, plant, and equipment at its fair value (total Rs. 1,050, comprised of Rs. 940 related to construction of the base layers and Rs. 110 related to construction of the original surface layers). The asset is recognised as it is constructed (Rs. 525 in year 1 and Rs. 525 in year 2). Depreciation is taken annually (Rs. 56, comprised of Rs. 38 for the base layers and Rs. 18 for the surface layers, starting in year 3).

IE25. As consideration for the service concession asset, the grantor recognises a liability under the grant of a right to the operator model for granting the operator the right to collect tolls of Rs. 200 in years 3-10. The liability is recognised as the asset is recognised.

IE26. The liability is reduced over years 3-10, and the grantor recognises revenue on that basis because access to the service concession asset is expected to be provided evenly over the term of the service concession arrangement from the point at which the asset is capable of providing economic benefits.

IE27. The compensation for the road resurfacing is included in the tolls the operator expects to earn over the term of the service concession arrangement. There is no direct cash flow impact related to the road resurfacing; however, the grantor recognises the resurfacing as an asset when the work is undertaken and recognises depreciation expense of Rs. 110/6 = Rs. 18, beginning in year 9.

IE28. The compensation for maintenance and operating the road (Rs. 12) is included in the tolls the operator expects to earn over the term of the service concession arrangement. There is no financial statement impact related to this service expense. It does not affect cash flow because the grantor has no cash outflow. It is not recognised as an operating expense because the fair value of the asset and liability initially recognised do not include any service costs the operator may incur.

Overview of Cash Flows, Income and Expenditure Statement, and Balance Sheet

IE29. The grantor's cash flows, income and expenditure statement, and balance sheet over the duration of the arrangement will be as illustrated in Tables 2.1 to 2.3. In addition Table 2.4 shows the changes in the liability.

Cash Flows

IE30. Because there are no payments made to the operator, there are no cash flow impacts for this example.

Table 2.2 Income and Expenditure Statement (Rupees)

Year	1	2	3	4	5	6	7	8	9	10	Total
Revenue (reduction of liability)	-	-	145	145	145	145	145	145	145	145	1160
Depreciation – base layers	-	-	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(304)
Depreciation – original surface layers	-	-	(18)	(19)	(18)	(18)	(19)	(18)	-	-	(110)
Depreciation – replacement surface layers	-	-	-	-	-	-	-	-	(18)	(19)	(37)
Total depreciation	-	-	(56)	(57)	(56)	(56)	(57)	(56)	(56)	(57)	(451)
Annual surplus/(deficit)	-	-	89	88	89	89	88	89	89	88	709

NOTES:

1. Depreciation in years 3-8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period.
2. Depreciation in years 9 – 10 reflects the depreciation on the new service concession asset component (surface) recognised in year 8.
3. The revenue (reduction of the liability) includes revenue from the additional liability (Table 2.3)
4. All revenue is recognised evenly over the term of the arrangement.

Table 2.3 Balance Sheet (Rupees)

Year	1	2	3	4	5	6	7	8	9	10
Service concession asset – base layers	525	940	902	864	826	788	750	712	674	636
Service concession asset – original surface layers	-	110	92	73	55	37	18	-	-	-
Service	-	-	-	-	-	-	-	110	92	73

concession asset – replacement surface layers										
Total Service concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	-	-	-	-	-	-	-	-	-	-
Liability	(525)	(1,050)	(905)	(760)	(615)	(470)	(325)	(290)	(145)	-
Cumulative surplus/deficit	-	-	(89)	(177)	(266)	(355)	(443)	(532)	(621)	(709)

NOTES:

1. In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognised in accordance with ASLB 17 before the new component of the service concession asset related to the resurfacing is recognised.

2. The new component of the service concession asset related to the resurfacing is recognised in year 8. Years 9-10 reflect deprecation on this additional component (Table 2.2).

3. The liability is increased in year 8 for the recognition of the new component of the service concession asset.

Table 2.4 Changes in Liability (Rupees)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Balance brought forward	-	525	1,050	905	760	615	470	325	290	145
Liability recognised along with initial service concession asset	525	525	-	-	-	-	-	-	-	-
Revenue (reduction of liability)	-	-	(145)	(145)	(145)	(145)	(145)	(145)	(145)	(145)
Liability recognised along with replacement surface layers	-	-	-	-	-	-	-	110	-	-
Balance carried forward	525	1,050	905	760	615	470	325	290	145	-

Example 3: The Grantor Makes a Predetermined Series of Payments to the Operator and Also Grants the Operator the Right to Charge Users a Toll for Use of the Road

Additional Arrangement Terms

IE31. The terms of the arrangement allow the operator to collect tolls from drivers using the road. The operator forecasts that vehicle numbers will remain constant over the duration of the arrangement and that it will receive tolls of Rs. 100 in each of years 3-10. The arrangement also requires the grantor to make a predetermined series of payments to the operator of Rs. 100 annually. The fair value of the right to collect tolls and the predetermined series of payments are considered to compensate the operator equally (i.e., 50% from each form of compensation to the operator).

Financial Statement Impact

IE24. The grantor initially recognises the service concession asset as property, plant, and equipment at its fair value (total Rs. 1,050, comprised of Rs. 940 related to construction of the base layers and Rs. 110 related to construction of the original surface layers). The asset is recognised as it is constructed (Rs. 525 in year 1 and Rs. 525 in year 2). Depreciation is taken annually (Rs. 56, comprised of Rs. 38 for the base layers and Rs. 18 for the surface layers).

IE33. As consideration for the service concession asset, the grantor recognises both a liability under the grant of a right to the operator model by granting the operator the right to collect tolls of Rs. 100 in years 3-10, and a financial liability to make payments of Rs. 100 in years 3-10. A liability and a financial liability are recognised as the asset is recognised at the end of year 1 (Rs. 525). The liability and financial liability are increased at the end of year 2 to reflect both the fair value of the additional construction (Rs. 525) and the finance charge on the outstanding financial liability.

IE34. The grantor's obligation related to the right granted to the operator to charge tolls and the predetermined payments are regarded as two separate items. Therefore in this arrangement it is necessary to divide the grantor's consideration to the operator into two parts – a liability and a financial liability.

IE35. The liability of Rs. 525 (recognised evenly at the end of year 1 and 2) is reduced over years 3-10, and the grantor recognises revenue on the same basis because the tolls are expected to be earned evenly over the term of the service concession arrangement from the point at which the asset is capable of providing service benefits.

IE36. The grantor initially recognises a financial liability at fair value equal to half of the fair value of the asset (Rs. 525), recognised evenly at the end of years 1 and 2; a liability under the grant of a right to the operator model is recognised in an amount equal to the other half of the fair value of the asset. The financial liability is also increased at the end of year 2 by the finance charge on the outstanding financial liability. Because the amount of the predetermined payments related to the service component of the service concession arrangement is known, the grantor is able to determine the amount of the payments that reduces the liability. A finance charge at the implicit rate of 6.18% is recognised annually. The liability is subsequently measured at amortised cost i.e., the amount initially recognised plus the finance charge on that amount calculated using the effective interest method minus repayments.

IE37. The operator is compensated for the road resurfacing (Rs. 110) equally through the tolls the operator expects to earn over the term of the service concession arrangement and the series of predetermined payments (i.e., 50% from each). There is no direct cash flow impact related to the road resurfacing; however, the grantor recognises the resurfacing as an asset when the work is undertaken and recognises depreciation expense of Rs. 110/6 = Rs. 18, beginning in year 9.

IE38. The operator is compensated for maintenance and operating the road (Rs. 12) equally through the tolls the operator expects to earn over the term of the service concession arrangement and the predetermined payment (i.e., 50% from each). There is no direct cash flow impact related to this service expense because the grantor has no cash outflow. However, the grantor recognises an expense annually for the portion of the compensation related to the series of predetermined payments (Rs. 6). There is no financial statement impact for the remaining Rs. 6 of this service expense. It is not recognised as an operating expense because the fair value of the asset and liability initially recognised do not include any service costs the operator may incur.

IE39. The grantor's cash flows, income and expenditure statement, and balance sheet over the duration of the arrangement will be as illustrated in Tables 3.1 to 3.3. In addition, Table 3.4 shows the changes in the liability and Table 3.5 shows the changes in the financial liability.

Overview of Cash Flows, Income and Expenditure Statement, and Balance Sheet

Table 3.1 Cash Flows (Rupees)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**Total**
Predetermined series of payments	-	-	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(800)
Net inflow/(outflow)	-	-	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(800)

Table 3.2 Income and Expenditure Statement (Rupees)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**Total**
Revenue (reduction of liability)	-	-	73	72	73	72	73	72	73	72	580
Service expense	-	-	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(48)
Finance charge	-	(16)	(33)	(30)	(26)	(22)	(17)	(12)	(11)	(5)	(172)
Depreciation – base layers	-	-	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(304)
Depreciation –	-	-	(18)	(19)	(18)	(18)	(19)	(18)	-	-	(110)

original surface layers											
Depreciation – replacement surface layers	-	-	-	-	-	-	-	-	(18)	(19)	(37)
Total depreciation	-	-	(56)	(57)	(56)	(56)	(57)	(56)	(56)	(57)	(451)
Annual surplus/(deficit)	-	(16)	(22)	(21)	(15)	(12)	(7)	(2)	-	4	(91)

NOTES:

1. Depreciation in years 3-8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period.
2. Depreciation in years 9 – 10 reflects the depreciation on the new service concession asset component (surface) recognised in year 8.
3. The revenue (reduction of the liability) includes revenue from the additional liability (Table 3.3)
4. All revenue is recognised evenly over the term of the arrangement.

Table 3.3 Balance Sheet (Rupees)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Service concession asset – base layers	525	940	902	864	826	788	750	712	674	636
Service concession asset –surface layers	-	110	92	73	55	37	18	-	-	-
Service concession asset – replacement surface layers	-	-	-	-	-	-	-	110	92	73
Total Service concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	-	-	(100)	(200)	(300)	(400)	(500)	(600)	(700)	(800)
Liability	(262)	(525)	(452)	(380)	(307)	(235)	(162)	(145)	(72)	-
Financial liability	(263)	(541)	(480)	(416)	(348)	(276)	(199)	(172)	(89)	-
Cumulative surplus/deficit	-	16	38	59	74	86	93	95	95	91

NOTES:

1. In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognised in accordance with ASLB 17 before the new component of the service concession asset related to the resurfacing is recognised.

2. The new component of the service concession asset related to the resurfacing is recognised in year 8. Years 9-10 reflect deprecation on this additional component (Table 3.2).

3. The liability is increased in year 8 for the recognition of 50% of the new component of the service concession asset.

4. The financial liability is increased in year 8 for the recognition of 50% of the new component of the service concession asset.

Table 3.4 Changes in Liability (Rupees)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Balance brought forward	-	262	525	452	380	307	235	162	145	72
Liability recognised along with initial service concession asset	262	263	-	-	-	-	-	-	-	-
Revenue (reduction of liability)	-	-	(73)	(72)	(73)	(72)	(73)	(72)	(73)	(72)
Liability recognised along with replacement surface layers	-	-	-	-	-	-	-	55	-	-
Balance carried forward	262	525	452	380	307	235	162	145	72	-

Table 3.5 Changes in Financial Liability (Rupees)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Balance brought forward	-	263	541	480	416	348	276	199	172	89
Liability recognised along with initial service concession asset	263	262	-	-	-	-	-	-	-	-
Finance charged added to liability prior to payments being made	-	16	-		-	-	-	-	-	-
Portion of predetermined series of	-	-	(61)	(64)	(68)	(72)	(77)	(82)	(83)	(89)

payments that reduces the liability*										
Liability recognised along with replacement surface layers	-	-	-	-	-	-	-	55	-	-
Balance carried forward	263	541	480	416	348	276	199	172	89	-

* This amount is calculated as follows: by reducing finance charge (refer table 3.2) and service expense (refer table 3.2) from predetermined series of payments (refer table 3.1)

Year 3: (100-33-6) = (61),
Year 4: (100-30-6) = (64),
Year 5: (100-26-6) = (68),
Year 6: (100-22-6) = (72),
Year 7: (100-17-6) = (77),
Year 8: (100-12-6) = (82),
Year 9: (100-11-6) = (83), and
Year 10: (100-5-6) = (89).

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 26 and the corresponding International Public Sector Accounting Standard (IPSAS) 32, 'Service Concession Arrangements: Grantor'.

Comparison with IPSAS 32, 'Service Concession Arrangements: Grantor'

1. Different terminologies have been used in ASLB 32 as compared to corresponding IPSAS 32, e.g., the terms 'statement of income and expenditure' and 'entities' have been used in place of 'statement of financial performance' and 'public sector entities'.

2. The provision pertaining to applicability of ASLBs has been covered in the Standard itself in line with other issued ASLBs (refer paragraph 3).

3. The following paragraphs of IPSAS 32 have been deleted or amended significantly to make the same more relevant in the context of local bodies in India:

   I. The term '*fair value*' has been defined additionally. (paragraph 8)
   II. The Standard provides reference of IPSAS on '*Financial Instruments*' at various places. However, ASLB on '*Financial Instruments*' is not proposed to be issued in near future. Accordingly, such reference has been deleted. (paragraph 20 &AG 53 deleted & paragraph 29 modified)
   III. Footnotes have been inserted with regard to explanation of effective interest method and defining financial asset & financial liability for more clarity (refer paragraph 18& AG 40).
   IV. Paragraphs 34 & 35A-B pertaining to transitional provisions have been deleted.
   V. Paragraphs 36-37 pertaining to effective date have been deleted as ASLB 32 would become mandatory for Local Bodies in a State from the date specified by the State Government concerned.

4. The following paragraphs appear as 'Deleted' in IPSAS 32. In order to maintain consistency with paragraph numbers of IPSAS 32, the paragraph numbers are retained in ASLB 32:

   I. Paragraph 4, and

II. Paragraph 35.

5. Some examples of IPSAS 32 have been deleted/ included in ASLB 32, and some examples have been modified in light of Indian conditions.

6. Consequential changes resulting from the above departures have been made in ASLB 32.