

GRAP 32

Service Concession Arrangements: Grantor

**(Including IGRAP 17
Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset)**




Accounting Standards Board





Disclaimer


The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.





Overview

- What are service concession arrangements and who is the grantor?
- What accounting problem does GRAP 32 solve?
- What are the key principles of GRAP 32?
- What are the key principles of IGRAP 17?
- Arrangements for first time adoption?
- Changes to other Standards?
- Potential implications?



What are service concession arrangements and who is the grantor?



Definitions



Service concession arrangement (SCA):

A contractual arrangement between a grantor and an operator in which:

- operator uses service concession asset to provide mandated function on behalf of grantor for specified period of time; and
- operator is compensated for its services over period of SCA.



Definitions



Service concession asset:

An asset used to provide a mandated function in a SCA that is provided by:

- operator (operator constructs/ develops/ acquires; or existing asset of operator); or
- grantor (existing asset of grantor / an upgrade to existing asset).



Definitions




Grantor:

Entity that grants right to use service concession asset to operator.



Examples

- Public-Private Partnership (PPP) arrangements governed by PFMA and MFMA
- Water services authority SCA with public or private entity
- Service concession assets could include:
 - Roads, bridges, tunnels, prisons, hospitals, airports, etc.



**What accounting problem
does GRAP 32 solve?**



What is the problem?

- Accounting for service concession asset:
 - When control / who controls
 - When recognised / derecognised
 - How measure
- Accounting for related liability

What is the problem?

Guideline on
*Accounting for
Public-Private
Partnerships*
(2008)

- Based on IFRIC 12
*Service Concession
Arrangements*

**UPDATED
PUBLIC
SECTOR
GUIDANCE**

IPSAS 32
published (2011)

- IPSASB published
public sector
guidance

GRAP 32
developed
(2013)

- Replaces PPP
Guideline



What are the key principles of GRAP 32?

What are the key principles?

Activity	Principle
How to account for service concession asset?	<ul style="list-style-type: none">• Assess control to recognise• Measure initially at fair value (not existing asset of grantor)• Existing asset of grantor: reclassify• Identify separately in AFS
How to account for liabilities?	<ul style="list-style-type: none">• Financial liability model• Grant of a right to the operator model• Combined model
Presentation and Disclosure	Users should be able to evaluate the significance of SCAs on financial position, performance and cash flows.

Service concession asset

Recognition and measurement summary

Existing asset grantor	Upgrading existing grantor asset	Existing asset operator	Constructed / developed asset
Reclassified; account under GRAP 16, GRAP 17, GRAP 31 or GRAP 103	Assess control criteria for recognition – i.a.w. GRAP 32	Assess control criteria for recognition – i.a.w. GRAP 32	Assess control criteria for recognition – i.a.w. GRAP 32
Change in use affecting FEB/SP: GRAP 21/GRAP 26	Measure at FV	Measure at FV	When? T&Cs + applicable asset Standards' recognition criteria
Derecognise if control criteria not met			Measure at FV



Service concession asset



Recognition

- **By grantor when controlled (par. 07):**
 - a) grantor controls / regulates what services operator must provide with asset, to whom, and at what price; **and**
 - b) grantor controls (ownership, beneficial entitlement / otherwise) any significant residual interest in asset at end of term of SCA.

Example #1 Recognition

- Department X enters into a SCA as the grantor with Private Entity X (operator) to operate a road. Department X is also the regulator that sets the toll tariffs for all roads.

Regulatory powers do not mean the control criteria are met. Therefore Department X does not control the price at which services are provided only as a result of setting toll tariffs. The terms and conditions of the SCA would need to be considered to assess control.



Example #2 Recognition

- Public Entity X (grantor) regulates a hospital - a service concession asset - as described in par. 07(a), excluding the hospital shop.

As the hospital shop is an ancillary activity to the hospital, it does not impact on the grantor's assessment of control over the hospital.

Service concession asset

Measurement initially at FV

- All except existing asset of grantor
- How to determine:
 - a) Grantor makes payments for asset to operator
 - > FV is portion of payments paid to operator for asset
 - Separable vs. inseparable
 - b) Grantor does not make payments for asset to operator: contribution by other means e.g. granting right to earn revenue
 - > FV calculated similar to exchange of non-monetary assets in GRAP 16, 17, 31 and 103



Service concession asset



Subsequent measurement

- GRAP 16, 17, 31 and 103; and GRAP 21 and 26 if indication of impairment

Example #3 Measurement

Public Entity Y (grantor) enters into a SCA with Company Z where Company Z will provide a telecommunication network (asset) and operate it for Public Entity Y. Public Entity Y controls the asset. Public Entity Y makes monthly payments in a 50/50 ratio for the asset and Company Z's services. The present value of the payments is R10mil.

Public Entity Y determines the present value of the payments to Company Z for the asset to equal its fair value and recognises the asset at R5mil.

Example #4 Measurement

Assume the same information as example #3, however, the SCA does not determine a ratio to allocate payments between the asset and Company Z's services. The present value of the payments are R10mil. Public Entity Y estimates the fair value of the services to be R5mil by reference to the fair value of a similar service in an arrangement that only contains payments for the similar service.

Public Entity Y determines the fair value of the asset to be R5mil by deducting the fair value of the service (R5mil) from the present value of total payments (R10mil).

Service concession asset

Presentation:

- Separate from owned / leased assets

Example

Notes to the AFS of Public Entity X (grantor)

Property, plant and equipment

R'mil	Land	Buildings	Service Concession Assets	Total
Cost	10	20	5	35
Accumulated depreciation	-	10	2	12
Carrying value	10	10	3	23



Liabilities

Recognition and measurement

- Recognise liability for assets recognised, except if grantor's assets reclassified
- Initial measurement = amount asset recognised, +/- consideration from grantor to operator or vice versa

Liabilities

Recognition and measurement summary

Financial liability model	Grant of right to operator model	Combined model
Grantor has unconditional obligation to pay cash / financial asset to operator for asset	Grants operator right to earn revenue from 3 rd parties / another revenue-generating asset	Grantor pays partly with financial liability & partly with right to operator
GRAP 104 applies	Transaction generates revenue – GRAP 9	Account separately for each part of total liability.
Allocate payments i.a.w. substance: <ul style="list-style-type: none"> - Reduction in liability - Finance charge (<i>expense</i>) - Charges for services (<i>expense</i>) 	Recognise revenue & reduce liability i.a.w. substance of SCA	Total liability unchanged.



Liabilities



Financial liability model

- Predetermined series of payments – GRAP 104 liability & finance charge
- Interest rate for finance charge may not change unless renegotiated
- Liability pertaining to asset excludes finance charge and service components
- Service component of payments ordinarily recognised evenly; specific expenses compensated with timing known - recognised as incurred
- Payments in advance - prepayment

Example #5

Financial liability model

Public Entity A is the grantor in a SCA and agrees to pay Private Entity B (operator) R100 000 a month for the five-year duration of the SCA. The payment is for:

- R50 000 service concession asset
- R40 000 service
- R10 000 finance charges

Public Entity A has determined the initial fair value of the asset to be R2 000 000, and recognised the asset and related financial liability for this amount.

Example #5

Financial liability model

Public Entity A processes the following journals:

Dr. Service concession asset	R2 000 000
Cr. Service concession liability	R2 000 000

[Initially recognise asset and related liability of SCA]

Dr. Service concession liability	R50 000
Dr. Service expense	R40 000
Dr. Finance charges	R10 000
Cr. Bank	R100 000

[Monthly payment in accordance with SCA]



Liabilities



Grant of a right to operator model

- Right granted effective for period of SCA; revenue arising from exchange of assets not recognised immediately
- Account for liability as unearned portion of revenue
- According to substance of arrangement

Example #6 Grant of right to operator model

Public Entity C is the grantor in a SCA and agrees to grant Private Entity D (operator) the right to use the service concession asset for 200 hours a month for the 5-year duration of the SCA, to generate revenue in exchange for the service concession asset and service provided by the operator.

Public Entity C has determined the initial fair value of the asset to be R2 000 000, and recognised the asset for this amount.

Public Entity C recognises a liability, “unearned revenue” for the same amount, i.e. R2 000 000.

Example #6 Grant of right to operator model

As the right is granted to the operator for the duration of the SCA and the 200hours a month represents an even allocation over the period of the SCA, revenue is recognised on a straight-line basis.

Public Entity C processes the following journals:

Dr.	Service concession asset	R2 000 000	
	Cr. Unearned revenue liability		R2 000 000

[Recognise asset and related liability from SCA]

Dr.	Unearned revenue liability	R400 000	
	Cr. Revenue		R400 000

[Annual revenue in accordance with SCA]

Presentation and disclosure

- Present information i.a.w. GRAP 1
- GRAP 32 requirements in addition to specific Standards
- Quantitative information on terms and conditions



Presentation and disclosure

- Some of the disclosure includes....


- #1 Description of overall objective and purpose of SCA.

- #2 Significant terms of SCA that may affect amount, timing, and certainty of future cash flows

Presentation and disclosure

#3 Nature and extent of:

- Rights to use specified assets
- Rights to expect operator to provide specified services in relation to SCA
- Service concession assets recognised as assets during period, incl. existing assets of grantor
- Rights to receive specified assets at end of SCA
- Renewal and termination options
- Obligations to provide operator with access to service concession assets or other revenue-generating assets



What are the key principles of IGRAP 17?

IGRAP 17

Scope

- SCA where grantor only controls significant residual interest in service concession asset at end of arrangement
 - Not meet control criteria of GRAP 32 (.07(a))
 - Apply IGRAP 3 to determine if GRAP 13 *Leases* should be applied
- =>IF NOT: apply IGRAP 17

IGRAP 17

Recognition and measurement

- Recognise “right to receive residual interest” asset
 - At commencement of SCA
 - Exchange consideration; GRAP 9
 - Measured at FV, reflecting value of asset as if in age and condition at end of SCA
- Recognise corresponding performance obligation
 - Same value as asset
- Recognise revenue and reduce obligation i.a.w. substance of arrangement



What are the arrangements for first time adoption?



Transitional provisions

- Apply GRAP 32 retrospectively, in accordance with the requirements of GRAP 3



Changes to other Standards?

Changes to other Standards

No significant changes.....

- GRAP 13 to include references to GRAP 32
- GRAP 16, 17, 31 and 103 scope includes service concession asset after initially recognised and measured i.a.w. GRAP 32
- GRAP 104 includes financial liability model
- IGRAP 3 added example of arrangement conveying rights to use asset



Potential implications?

Comparison PPP Guideline and GRAP 32

Entities applied PPP Guideline in the past.

Activity	PPP Guideline	GRAP 32
Definition	PPPs as defined in legislation	SCAs, which is wider than PPPs, but includes PPPs
Asset recognition	Control approach Includes inventory	Control approach Excludes inventory (it's a consequence of SCA)
Presentation service concession asset	As per respective Standards of GRAP	Separate asset class for service concession assets



Stakeholder outreach and communication



Outreach activities

- Continuous promotion of GRAP by improving outreach to stakeholders (workshops, meetings, seminars, SAICA webinars)
- Stakeholders should liaise with ASB when requiring any engagements
- Newsletters & Meeting Highlights
- Handbook

Translation

- Standards translated into isiZulu, Sesotho and Afrikaans
- The official version is the English language version
- Available on website

Website

- Overview of changes made to reporting framework for 2018 onwards.
- Three set of Standards:
 - Those entities with a December year-end
 - The Standards applicable for the current year
 - The Standards applicable for the next financial year
- Please register on website if you want to be advised of changes:

<http://www.asb.co.za/GRAP/Subscribe-to-email-alerts>



Submitting comments

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THANK YOU





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