

# Accounting for Service Concession Arrangement 1 of 3

IFRIC 12 applies to public-to-private service concession arrangements in which the public sector body (the grantor) controls and/or regulates the services provided with the infrastructure by the private sector entity (the operator).

There is no specific IFRS that applies to public-to-private service concession arrangements for delivery of public services. IFRIC 12 'Service concession arrangements' interprets various standards in setting out the accounting requirements for service concession arrangements while SIC 29 'Services concession arrangements: Disclosures' contains disclosure requirements. Also, there is no specific IFRS that applies to an instance where an operator in a service concession arrangement sub leases its right to access the infrastructure to a third party. However, this article will help in the analysis of the relevant IFRS that applies in line with the requirement of the standard.

A typical 'public-to-private' arrangement that falls within the scope of IFRIC 12 is a 'build-operate-transfer' arrangement. Under this type of arrangement, an operator constructs the infrastructure to be used to provide a public service, and it operates and maintains that infrastructure for a specified period of time. The operator is paid for its services over the period of the arrangement or receives the right to charge users for services provided. A contract between the grantor and the operator sets out performance standards, pricing mechanisms, and arrangements for arbitrating disputes. [IFRIC 12:2] In some cases, the operator may upgrade the existing infrastructure and maintain and operate the upgraded infrastructure. This second type of arrangement is sometimes referred to as a 'rehabilitate-operate-transfer' arrangement.

Typically, in a service concession arrangement,

- The grantor is a public sector entity, including a governmental body, or a private sector entity to which the responsibility for the service has been devolved.
- The operator is responsible for at least some of the management of the infrastructure and related services and does not merely act as an agent on behalf of the grantor.
- The contract sets the initial prices to be levied by the operator and regulates price revisions over the period of the service arrangement.
- The operator is obliged to hand over the infrastructure 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.
- The operator is obligated to make periodic payments to the grantor that cannot be separated from the concession arrangement and
- The grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price.

As the infrastructure is controlled by the grantor, the operator does not recognize the infrastructure

as its property, plant and equipment; nor does the operator recognize a finance lease receivable for leasing the public service infrastructure to the grantor, regardless of the extent to which the operator bears the risk and rewards incidental to ownership of the assets.

The operator recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash irrespective of the usage of the infrastructure. The subsequent accounting of the financial asset should consider the guidance in IFRS 9 'Financial instruments'.

The operator recognizes an intangible asset to the extent that it receives a right (a license) to charge users of the public service.

IFRIC 12 allows for the possibility that both types of consideration may exist within a single contract. For example, to the extent that the grantor has given to the operator an unconditional guarantee of minimum payments for the construction, the operator recognizes a financial asset.

The operator may also recognize an intangible asset representing the right to charge users of the public service that is in addition to the minimum guaranteed payments.

The operator accounts for revenue and costs relating to construction or upgrade services and operation services in accordance with IFRS 15, 'Revenue from contracts with customers'.

Upon subsequent accounting treatment for a financial asset, the operator applies IFRS 9 (or, for entities that have not yet adopted IFRS 9, IAS 39) applies to the financial asset recognized under IFRIC 12.

Under IFRS 9, depending on the circumstances, the financial asset will be measured at amortized cost, at fair value through other comprehensive income, or at fair value through profit or loss.

Under IAS 39, depending on whether the financial asset is classified as loans and receivables, as an available-for-sale financial asset or designated as at fair value through profit or loss, it is subsequently measured either at amortized cost or fair value.

Subsequent accounting treatment for an intangible asset IAS 38 applies to any intangible asset recognized under IFRIC 12. IAS 38 will typically require that intangible asset to be measured using the cost model.

Below table shows some service concession contracts with federal and state governments.

S/n	Name of Project	Location	Grantor	Operator	Sector	Tenor
1	Lekki deep water port	Lagos	Nigerian Ports Authority	Lekki Port LFTZ Enterprise Limited	Transport	45 years
2	Warri New terminal A	Delta	Nigerian Port Authority	SIFAX Group Consortium	Transport	25 years
3	Gurara Hydropower project Kaduna	Kaduna	Federal Ministry of Water resources	North South Gurara Power Company Ltd	Energy	20 years
4	Fibre optic cable telecommunications infrastructure (phase 3 telecom)	FCT, South West, South East, North east.	Transmission Company of Nigeria	Phase 3 Telecom	Transmission Company of Nigeria	15 years
5	Tincan island container terminal B	Lagos	Nigerian Port Authority	Tincan Island Container Terminal Limited	Transport	
6	SHIRORO HYDRO ELECTRIC POWER PLANT	Niger	Federal Ministry of Power, Works and Housing	North South Power Company Limited	Energy	30 years
7	INLAND CONTAINER DEPOT AT KANO, KANO STATE	Kano	Nigerian Shippers' Council	Inland Container Nigeria Ltd	Transport	
8	Murtala Mohammed Airport 2	Lagos	Nigeria Port Authority	Bi-Courtney Ltd	Transport	36 years
9	Multi-Purpose Terminal C (Canal Berth)	Delta	Nigerian Port Authority	Julius Berger Service Nigeria Ltd	Transport	25 years

Source: Ppc.icrc.gov.ng

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Reference:  
Deloitte Accounting Research Tool (DART)  
<https://dart.deloitte.com/iGAAP>  
IASPLUS.com

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