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Research Article

Analysis Implementation of Service Concession Agreements - Service Providers Retrospective (ISAK 16)

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Abstract

A service concession arrangement is an arrangement whereby a government or other public sector body contracts with a private operator to develop, operate and maintain an infrastructure asset such as a road, bridge, tunnel, airport, energy distribution network, prison or hospital. The government controls or regulates what services the operator must provide using the asset, to whom, and at what price, and also controls any significant residual interest in the asset at the end of the term of the arrangement.

IFRIC 12 clarifies that the operator does not recognise the related infrastructure as its property, plant and equipment because the operator does not have the right to control the use of the infrastructure. If the operator provides construction or upgrade services, the operator recognises an intangible asset to the extent that it receives a right to charge users of a public service and/or a financial asset to the extent it receives an unconditional contractual right to receive cash in exchange for its services (Nasution et al., 2021). SIC-29 prescribes related disclosures.

In November 2006 the International Accounting Standards Board issued IFRIC 12 Service Concession Arrangements. It was developed by the Interpretations Committee.

Other Standards have made minor consequential amendments to IFRIC 12. They include IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) (issued November 2013), IFRS 15 Revenue from Contracts with Customers (issued May 2014), IFRS 9 Financial Instruments (issued July 2014), IFRS 16 Leases (issued January 2016) and Amendments to References to the Conceptual Framework in IFRS Standards (issued March 2018).

***Keywords**:* Service Concession Agreements - Service Providers, ISAK 16

1. INTRODUCTION

A service concession agreement is an arrangement under which a government or other public sector agency contracts with a private operator to develop, operate and maintain infrastructure assets such as roads, bridges, tunnels, airports, energy distribution networks, prisons or hospitals. The government controls or regulates what services the operator must provide using the assets, to whom, and at what price, and also controls a significant residual interest in the assets at the

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end of the term of the agreement.
The Accrual-Based PSAP No.16 is intended to regulate the financial reporting of service concession agreements from the perspective of the concessionaire. The regulation in question is PMK 84/2021. This regulation was promulgated and takes effect from 1 July 2021.

Article 2 of PMK 84/2021 reads "The accounting and financial reporting process for service concession agreements is carried out based on the Accrual-Based Government Accounting Standard Statement Number 16 Service Concession Agreement - Concession Giver."

Accrual-Based PSAP No. This PSAP is effective January 1, 2022. This PSAP is also an integral part of Attachment I to Government Regulation Number 71 of 2010 concerning Government Accounting Standards.

A more detailed description of the Accrual-Based PSAP No.16 is listed in the Attachment of PMK No.84/2021. This PSAP applies to regulate the accounting of service concession agreements carried out by government entities as concession givers.

Thus, this PSAP only applies to central/regional government entities in preparing general purpose financial reports. Meanwhile, the accounting guidelines for service concession agreements for concession partners follow the relevant financial accounting standards.

A service concession agreement is a binding agreement between the concession giver (government accounting/reporting entity) and the partner. Under the agreement, the partners use the service concession assets to provide public services on behalf of the concessionaire for a certain period of time.

Furthermore, partners are given compensation for the provision of public services during the service concession agreement period. In essence, this agreement involves partners to provide public services related to service concession assets on behalf of the concessionaire
The service concession assets are assets used to provide public services on behalf of the government in an agreement. The assets in question are assets provided by partners or provided by the government.

The government is obliged to provide public services which are generally funded by the APBN/APBD.

1. PPP = Public Private Partnership fostered by the PPP Directorate (DKPS)
2. Is service concession arrangement (public to private services)
3. Sectors that have PPP, based on Indonesian Infrastructure Summit 2005, are:
   a. Gas
   b. Power and electricity
   c. Road transportation (68 projects)
   d. Water
   e. Telecommunication

This interpretation does not regulate the accounting for infrastructure owned and recognized as property, plant and equipment by the operator prior to entering into a service agreement. The derecognition requirements in the related SAK (regulated in PSAK 16: Fixed Assets) apply to such infrastructure.

This interpretation does not regulate accounting for concessionaires. This interpretation provides accounting guidance for operators of public-to-private service concession agreements. This interpretation applies to:

1. Infrastructure built by the operator or obtained by the operator from a third party for the purpose of the service agreement; and
2. Existing infrastructure to which access is granted by the concessionaire to the operator for the purpose of the service agreement.

This interpretation establishes general principles for recognizing and measuring related obligations and rights in service concession agreements. Information disclosure requirements regarding service concession agreements are regulated in ISAK 22: Service Concession Agreements: Disclosures. The issues discussed in this Interpretation are:

1. treatment of operator rights over infrastructure;
2. recognition and measurement of agreement benefits;
3. construction services or capacity building;
4. operation services;
5. borrowing costs;
6. accounting treatment after initial recognition of financial assets and intangible assets; and
7. things granted by the concessionaire to the operator.

The answer to this question is what we will explain in this article.

2. LITERATURE REVIEW

The government has introduced contractual service agreements to attract private sector participation in the construction, financing, operation and maintenance of infrastructure. The infrastructure may already be available, or it may have to be built during the service agreement period. These service agreements usually involve a private sector entity (operator) to build the infrastructure used to provide public services or improve them (for example, by increasing capacity) and operate and maintain the infrastructure for a specified period of time. Operators are paid for services rendered during the agreement period.

The agreement is governed by a contract that establishes performance standards, a price adjustment mechanism, and an agreement to mediate disputes. Such agreements are often called Public Private Partnerships.

PII (2014) defines Public Private Partnership as a long-term contract between a private party and a government agency to provide a public asset or service, and based on the contract, the private party bears significant risks and management responsibilities with remuneration determined based on performance.

DSAK (2017a) defines Public Private Partnership as a Service Concession Agreement, namely a contractual service agreement to attract private sector participation in the development, financing, operation and maintenance of infrastructure. Furthermore, the guidelines for the service concession agreement are stated in the Interpretation of Financial Accounting Standard 16 (ISAK 16): Service Concession Agreement.

A service concession agreement is a binding agreement between the grantor of the concession (government accounting/reporting entity) and the partner. In services to provide public services on behalf of the concessionaire for a certain period of time.

The characteristics of the service concession agreement according to ISAK 16 are as follows:

a. The obligation to serve the public rests with the operator
b. The grantor (grantor) is a public sector entity or a private entity that has been given
c. responsibility
d. Operators are responsible for at least part of the management of infrastructure and related services, not just acting as agents of grantors
e. Initial pricing and price changes during the concession period
f. The operator is obliged to hand over the infrastructure to the grantor at the end of the concession period of the agreement, the partner uses the concession assets

3. METHODS

This research use desciptive qualitative approach. Qualitative descriptive is a research method that utilizes qualitative data and is described descriptively. Setyosari (2010) explains descriptive research is research whose purpose is to explain or describe an event, situation, object, whether person, or everything related to variables that can be explained using either numbers or words.

This study also explains how to analyze the impact of the planned implementation of the service concession agreement - the service provider. In addition, we will also describe the impact of the planned implementation of the service concession agreement - service provider on infrastructure.

4. RESULTS AND DISCUSSION

4.1. Result

4.1.1 Interpretation

1. Treatment of Operators' Rights to Infrastructure
   Infrastructure, within the scope of this Interpretation, will not be recognized as fixed assets of the operator because the contractual service agreement does not give the operator the right to control the use of the public service infrastructure. The operator has access to operate the infrastructure to provide public services for the benefit of the concessionaire in accordance with the terms specified in the contract.
2. Recognition and Measurement of Rewards on Agreements
   According to the terms of the contract agreement, within the scope of this Interpretation, the operator acts as a service provider. Operators build or upgrade infrastructure capabilities (build or improve services) used to provide public services and operate and maintain these infrastructures (operating services) for a certain period of time.
   Operators must recognize and measure revenue in accordance with PSAK 34: Accounting

for Construction Contracts and PSAK 23 (revised 2010): Revenue for services performed. If an operator performs more than one service (i.e. development or upgrading services and operating services) under a single contract or agreement, the consideration received or receivables shall be allocated by reference to the relative fair value of the services rendered, if the amounts can be separately identified. The nature of the benefits determines the subsequent accounting treatment. Accounting for consideration received as financial assets and as intangible assets.

3. Development or Capacity Building Services
   Operators record revenues and costs related to construction or capacity building services in accordance with PSAK 34: Accounting for Construction Contracts.
4. Rewards Given by Concessionaires to Operators
   If the operator performs development or capacity building services, the consideration received or receivable from the operator is recognized at fair value. Rewards can in the form of rights to:
   a. financial assets; or
   b. intangible assets
   The operator recognizes a financial asset to the extent that the operator has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for services construction; the grantor has little, if any, ability to avoid payment, usually because the agreement is legally enforceable. The operator has an unconditional right to receive cash if the grantor contractually guarantees to pay the operator (a) a fixed or determined amount; or (b) a shortfall, if any, between the amount received from users of the public service and the amount specified or determined, even if payment is contingent on whether the operator has ensured the infrastructure meets specified quality or efficiency requirements.
   Operators recognize intangible assets to the extent that the operator receives the right (license) to charge users of public services. A right to charge users of public services is not an unconditional right to receive cash because the amount depends on the extent to which the public uses the services.
   If the operator is paid for construction services partly by financial assets and partly by intangible assets, the operator needs to record separately each component of the operator's fee. The consideration received or receivable for the two components is initially recognized at the fair value of the consideration received or receivable. The nature of the consideration provided by the concessionaire to the operator will be determined by reference to the terms of the contract and, if any, the relevant contract law.
5. Operation Services
   Operators record service-related revenues and operating costs in accordance with PSAK 23 (revised 2010): Revenue.
6. Contractual Obligation to Restore Infrastructure at a Certain Level of Serviceability
   The operator may have contractual obligations that must be fulfilled as a condition of the license (a) to maintain the infrastructure at a certain level of serviceability, or (b) to restore the infrastructure to a specified condition prior to delivery to the concessionaire at the conclusion of the service agreement. Contractual obligations to maintain or restore infrastructure, except for any upgrade elements (see paragraph 14), shall be recognized and measured in accordance with PSAK 57 (revised 2009): Provisions, Contingent Liabilities and Contingent Assets, ie based on the best estimate of the expenditure required to settle

the current obligation at the end of the reporting periode

Loan Fees Issued by Operators

In accordance with PSAK 26 (revised 2008): Borrowing costs, borrowing costs related to the agreement are recognized as an expense in the period in which the borrowing costs are incurred, unless the operator has a contractual right to receive an intangible asset (the right to charge users for public services). In this case, borrowing costs attributable to the agreement should be capitalized, during the construction phase of the agreement, in accordance with the PSAK.

7. Financial Assets

   PSAK 50 (revised 2006): Financial Instruments: Presentation and Disclosures and PSAK 55 (revised 2006): Financial Instruments: Recognition and Measurement applies to the financial assets recognized in paragraphs 16 and 18.

   Amounts that can be collected from the grantor, or other parties determined by the grantor, are recorded in accordance with PSAK 55 (revised 2006): Financial Instruments: Recognition and Measurement as:

   a. loans or receivables;
   b. financial assets available for sale; or
   c. if at initial recognition it is designated as a financial asset at fair value through profit or loss, if the conditions for its classification are met.

   If the collectible amount from the concessionaire is recorded as either a loan or receivable or as an available-for-sale financial asset, PSAK 55 (revised 2006): Financial Instruments: Recognition and Measurement requires interest to be calculated using the effective interest rate method to be recognized in profit. or loss.

8. Intangible Assets

   Intangible Assets applies to intangible assets that are recognized in accordance with paragraphs 17 and 18. PSAK 19 provides guidance for the measurement of intangible assets acquired in exchange for a non-monetary asset or assets or a combination of monetary assets and non-monetary assets.

9. Items Provided to Operators by the Concessioner

   In accordance with paragraph 11, infrastructure items to which the operator is granted access by the grantor for the purpose of fulfilling the service agreement, are not recognized as property and equipment of the operator. The concessionaire may also hand over other items to the operator, which can be stored or used at the operator's discretion. If the asset is part of the fee payable by the concessionaire for services, the asset is not a government grant. These assets are recognized as operator assets, which are measured at fair value at initial recognition. The operator shall recognize a liability in respect of the outstanding obligations, which were incurred in connection with the exchange of assets.

4.1.2 Effective Date

An entity shall apply this Interpretation for financial year periods beginning on or after January 1, 2012.

4.1.3. Transition Terms

Subject to paragraph 30, changes in accounting policies are accounted for in accordance with PSAK 25 (revised 2010): Accounting Policies, Changes in Accounting Estimates, and Errors, that is, retrospectively. If, for any particular service agreement, it is impracticable for the operator to apply this Interpretation retrospectively at the beginning of the earliest period presented, the entity:

1. recognizes existing financial assets and intangible assets at the beginning of the earliest period presented;
2. using the previous carrying amount of the financial asset and the intangible asset (regardless of the previous classification) as the carrying amount at that date; and
3. perform impairment tests on financial assets and intangible assets recognized at that date, unless this is impracticable, in which case the amount of impairment should be tested at the beginning of the current period.

4.2. DISCUSSION

This Interpretation states that infrastructure falls within the scope of this Interpretation, if the following conditions apply:

a. the concessionaire controls or regulates what services the operator must provide with the infrastructure, to whom the services must be provided, and at what price; and
b. the grantor controls – through ownership, benefit rights or otherwise – any significant residual interest in the infrastructure at the end of the term agreement.

The control or regulation referred to in condition (a) may be by contract or by other means (such as through a regulator), and includes circumstances where the concessionaire purchases all of the output, as well as in circumstances where part or all of the output is purchased by another user.
To apply this condition, the concessionaire and related parties will

considered together. If the grantor is a public sector entity, the public sector as a whole, together with the regulator acting in the public interest, is deemed to be associated with the grantor for the purposes of this Interpretation.

For the purposes of condition (a), the grantor does not need to fully control the price. Condition (a) is met, it is sufficient that the concessionaire can set the price, by contract or by a regulator, for example by a restrictive mechanism. However, these conditions must be applied to the substance of the agreement. Non-substantive features, such as price restrictions that apply only to less likely conditions, should be ignored. On the other hand, if, for example, the contract is intended to give the operator freedom to set prices, but any excess profits are returned to the concessionaire, the operator's acceptance is limited and tests of controls over the price element have been met.
For the purposes of condition (b), the concessionaire's control over the significant residual interest must limit the operator's ability to sell or pledge the infrastructure and grant the concessionaire a continuing right of use throughout the term of the agreement. The residual interest in infrastructure is an estimate of the present value of the infrastructure as if it had been until the end of the age and in the expected condition at the end of the agreement period.

Control must be distinguished from management. If the grantor maintains the level of control described in paragraph 05 (a) and maintains a significant residual interest in the infrastructure, the operator only manages the infrastructure on behalf of the concessionaire. Although, in most cases, those considerations involve more management policies.

Conditions (a) and (b) together identify when the infrastructure, including any required replacement (see paragraph 21), is controlled by the grantor for its entire economic life. For example, if the operator has to replace part of an infrastructure item during the agreement period (eg the top layer of a road or the roof of a building), the infrastructure item must be considered as a whole. Thus condition (b) has been met for the entire infrastructure including the part replaced, if the concessionaire controls a significant residual interest in the replacement of the final part. Sometimes the use of infrastructure is partly regulated in paragraph 05(a) and partly unregulated. However, these agreements vary:

1. any infrastructure, which is physically separable and capable of being operated independently and meets the definition of a cash-generating unit as defined in PSAK 48 (revised 2010): Impairment of Asset Value, must be analyzed separately if it is used solely for unregulated purposes. For example, this may apply to parts of a hospital that are not intended for public use, where other parts of the hospital are used by the concessionaire for general patient care.
2. when ancillary activities (such as a hospital-owned store) are not regulated, tests of controls will be applied as if the service did not exist, because in cases where the concessionaire controls the service in the manner described in paragraph 05, the support activity exists. does not reduce the concessionaire's control over infrastructure.

5. CONCLUTION

The Service Concession Agreement adopts all the arrangements in IFRIC 12 Service Concession Arrangement as of January 2009, except for IFRIC 12 paragraph 28 which becomes ED ISAK 16 paragraph 2 regarding the effective date by not allowing early implementation, because such early application will only be carried out properly if all arrangements in IFRS adopted simultaneously into SAK. the adoption of IFRS into SA in Indonesia is carried out in stages.

Transitional provisions ED ISAK 16 adopts the transitional provisions of IFRIC 12. Matters considered in setting the transitional provisions are, among other things, the impact of the adoption of new accounting policies on the preparation of financial statements. If retrospectively applied, the operator's financial statements must be restated since the concession was first obtained.

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