Model Public Sector Group

Illustrative financial statements for the year ended 31 December 2018

Based on International Public Sector Accounting Standards in issue at 31 January 2017

Building a better working world

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Commentary

The Group is a public sector entity incorporated and domiciled in the fictional jurisdiction of Euroland. Financial statements of this category of entity are usually subject to mandatory audit either under applicable legislation or International Standards on Auditing (ISA)/local audit standards and the auditor's report should be disclosed together with the annual financial statements. However, this publication is not intended to provide guidance on the application of ISA 700 (Revised) Forming an Opinion and Reporting of Financial Statements or the specific requirements of individual jurisdictions. Hence, an illustrative auditor's report on the consolidated financial statements of the Group has not been included.

Foreword

A growing number of governments and international organizations around the world are recognizing the need for transparency in their finances and are, as a result, deciding to adopt International Public Sector Accounting Standards (IPSASs). Accurate, comprehensive and reliable financial information is fundamental to accountability and decision-making in the public sector. IPSASs are recognized as the only internationally accepted set of public sector accounting standards that provides such information.

The standards aim to provide clear guidance for a variety of different types of public sector entities in a number of (sometimes complex) accounting situations. However, preparers often struggle to translate the underlying principle of a standard into a practical solution to a specific accounting issue. As advisors on IPSAS conversion projects, EY often provides guidance on acceptable accounting options in the practical application of IPSAS. Against this background, we are delighted to present the second edition of Model Public Sector Group – Illustrative financial statements for the period ended 31 December 2018. This set of model consolidated financial statements for a model public sector entity aims to bridge the gap between the accounting theory, as outlined in the standards, and the presentation of such information in the financial statements.

This edition of illustrative annual consolidated financial statements of Model Public Sector Group has been prepared by EY to assist you in preparing your own financial statements in accordance with IPSAS in issue at 31 January 2017 and effective for annual periods beginning on 1 January 2018.

We hope that you will find this guide useful. If you have any comments or suggestions, we would be happy to consider them for the next edition of this publication. Please e-mail me at: thomas.mueller-marques.berger@de.ey.com.

Yours sincerely,

Thomas Müller-Marqués Berger

Global Leader International Public Sector Accounting

Abbreviations, key and definitions

The following styles of abbreviation are used in this set of Model Public Sector Group illustrative financial statements:

IPSAS 16.12	International Public Sector Accounting Standard No. 16, paragraph 12
IPSAS 16.BC1	International Public Sector Accounting Standard No. 16, Basis for Conclusions, paragraph 1
IAS 12	International Accounting Standard No. 12
IFRIC 12.2	IFRS Interpretations Committee (formerly IFRIC) Interpretation No. 12, paragraph 2
IPSAS	International Public Sector Accounting Standards
Commentary	The commentary explains how the requirements of IPSAS have been applied in arriving at the illustrative disclosure.
IPSASB	International Public Sector Accounting Standards Board

Definitions

Governing body	The term governing body is used in these illustrative financial statements to refer to that person/body/entity that governs the Group in a manner similar to how a board of directors would govern a private company.
Management	The term management is used to refer to the chief executive and senior management of the Group that is responsible for the activities of the Group, to manage the resources of the Group and overall achievement of the Group's objectives, as set out by the governing body.
Municipality	A political unit, such as a city, town, or village, established for local government. Within the public sector, the following terms (amongst others) may also be used to describe the same type of entity: ▸ City council ▸ Local council ▸ Town council ▸ Local authority ▸ Local government area

Introduction

This publication contains an illustrative set of consolidated financial statements for Model Public Sector Group and its controlled entities (the Group) that is prepared in accordance with International Public Sector Accounting Standards (IPSAS). The Group is a fictional municipality established in a fictional country within Europe. The presentation currency of the Group is the Euro.

Objective

This set of consolidated financial statements is prepared by EY to assist you in preparing your own accrual basis financial statements. The illustration reflects some of the transactions, events and circumstances that we consider to be common for a broad range of entities within the public sector. However, it does not address all possible transactions, events and arrangements. Therefore, additional disclosures may be required for the transactions, events or arrangements that are not addressed in these illustrative financial statements. While these illustrative financial statements may serve as a useful reference, users of this publication are reminded of the importance of preparing appropriately tailored, entity-specific disclosures. Furthermore, certain disclosures are included in these illustrative financial statements even though they may be regarded as items or transactions that are not material to the Group. It should be noted that the illustrative financial statements of the Group are not designed to satisfy any country or jurisdiction-specific regulatory requirements.

Please note that these illustrative financial statements do not typically early adopt IPSAS standards or amendments before their effective date. However, in order to provide users with an illustration of the requirements of IPSAS 40 Public Sector Combinations, this standard has been early adopted in this set of illustrative financial statements.

Notations shown on the right-hand margin of each page are references to IPSAS paragraphs that describe the specific disclosure requirements. Commentary is provided in certain instances to further explain the basis for the disclosure or to address alternative disclosures not included in the illustrative financial statements. As this guide is not authoritative, it is essential to use professional judgement and refer to the relevant standards and pronouncements and, where necessary, to seek appropriate professional advice.

International Public Sector Accounting Standards Boards (IPSASB)

The IPSASB is an independent standard-setting board that develops International Public Sector Accounting Standards (IPSAS), non-mandatory Recommended Practice Guidance (RPG), and resources for use by public sector entities around the world for general purpose financial reporting. The IPSASB is one of four independent standard-setting boards supported by the International Federation of Accountants (IFAC), the worldwide organization for the accountancy profession.

The IPSASB aims to enhance the quality and transparency of public sector financial reporting by:

- Strengthening Public Financial Management globally through increasing adoption of accrual-based IPSAS
- Developing IPSAS and other high-quality financial reporting guidance for the public sector
- Raising awareness of IPSAS and the benefits of accrual adoption

Accounting policy choices

In some cases, IPSAS permits more than one accounting treatment for a transaction or event. Preparers of financial statements should select the treatment that is most relevant to their activities and the relevant circumstances as their accounting policy.

IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors requires an entity to select and apply its accounting policies consistently for similar transactions, events and/or conditions, unless a standard specifically requires or permits categorization of items for which different policies may be appropriate. Where a standard requires or permits such categorization, an appropriate accounting policy is selected and applied consistently to each category. Therefore, once a choice of one of the alternative treatments has been made, it becomes an accounting policy and must be applied consistently. Changes in accounting policy should only be made if required by a standard, or if the change results in the financial statements providing more reliable and relevant information.

In this publication, when a choice is permitted by IPSAS, the Group has adopted one of the treatments as appropriate to the illustrative circumstances of the Group. In these cases, the commentary provides details of which policy has been selected, the reasons for this policy selection, and summarizes the difference in the disclosure requirements.

Financial, service performance and long-term sustainability reviews by the entity’s management

Many public sector entities present financial, service performance and/or long-term sustainability reviews by executives of the entity that are outside the financial statements. IPSAS does not require the presentation of such information. However, the IPSASB has issued three recommended practice guidelines, RPG 1 Reporting on the Long-Term Sustainability of an

Entity's Finances, RPG 2 Financial Statement Discussion and Analysis and RPG 3 Reporting Service Performance Information to assist entities in preparing and presenting such reviews. Compliance with these RPGs is not required for an entity to assert that its financial statements comply with IPSAS. Further, the content of such reviews by management is often determined by local legislative requirements or issues specific to a particular jurisdiction.

No financial, service performance, or long-term sustainability reviews have been included for the Group.

IPSAS as at 31 January 2017

The standards applied in these illustrative financial statements are the versions that were in issue as at 31 January 2017 and effective for annual periods beginning on 1 January 2018. Standards issued, but not yet effective as at 1 January 2018 have not been early adopted, with the exception of IPSAS 40, which is applicable for annual periods beginning on 1 January 2019 and has been early adopted in these illustrative financial statements.

IPSAS illustrated in the Group are as follows, unless otherwise noted:

International Public Sector Accounting Standards		Included
IPSAS 1	Presentation of Financial Statements	
IPSAS 2	Cash Flow Statements	
IPSAS 3	Accounting Policies, Changes in Accounting Estimates and Errors	
IPSAS 4	The Effects of Changes in Foreign Exchange Rates	
IPSAS 5	Borrowing Costs	
IPSAS 9	Revenue from Exchange Transactions	
IPSAS 10	Financial Reporting in Hyperinflationary Economies	[1]
IPSAS 11	Construction Contracts	[2]
IPSAS 12	Inventories	
IPSAS 13	Leases	
IPSAS 14	Events after the Reporting Date	
IPSAS 16	Investment Property	
IPSAS 17	Property, Plant, and Equipment	
IPSAS 18	Segment Reporting	
IPSAS 19	Provisions, Contingent Liabilities and Contingent Assets	
IPSAS 20	Related Party Disclosures	
IPSAS 21	Impairment of Non Cash Generating Assets	
IPSAS 22	Disclosure of Financial Information about the General Government Sector	[3]
IPSAS 23	Revenue from Non-Exchange Transactions (Taxes and Transfers)	
IPSAS 24	Presentation of Budget Information in Financial Statements	
IPSAS 26	Impairment of Cash Generating Assets	
IPSAS 27	Agriculture	[2]
IPSAS 28	Financial Instruments: Presentation	
IPSAS 29	Financial Instruments: Recognition and Measurement	
IPSAS 30	Financial Instruments: Disclosures	
IPSAS 31	Intangible Assets	
IPSAS 32	Service Concession Arrangements: Grantor	
IPSAS 33	First-time Adoption of Accrual Basis IPSASs	[4]
IPSAS 35	Consolidated Financial Statements	
IPSAS 36	Investments in Associates and Joint Ventures	

IPSAS 37	Joint Arrangements
IPSAS 38	Disclosure of Interests in Other Entities
IPSAS 39	Employee Benefits
IPSAS 40	Public Sector Combinations

This standard is incorporated into the accounting policies and / or individual transactions with appropriate note disclosures.

1 An assumption was made that the entity does not operate in a hyperinflationary economy.

2 These standards are not applied in this set of financial statements, as the Group does not usually engage in such transactions or arrangements.

3 This standard is applicable only to a government that elects to present information about the general government sector in their consolidated financial statements and is generally not applicable at an individual entity level. Therefore this standard is not applied in these illustrative financial statements.

4 This standard is not incorporated into the accounting policies and / or individual transactions but it has been covered in a separate section that summarises the key aspects of the standard.

All standards listed above incorporate all amendments effective on or before 1 January 2018, unless otherwise stated. It is important to note that the IPSASB may issue new or revised standards subsequent to 1 January 2018. Therefore, users of this publication are advised to verify that there has been no change in the IPSAS requirements between 1 January 2018 and the date on which their financial statements are authorized for issue. In accordance with IPSAS 3, specific disclosure requirements apply for standards issued but not yet effective.

IPSAS 33 - First-time Adoption of Accrual Basis IPSASs – a summary

Introduction

IPSAS 33 First-time adoption of Accrual Basis IPSASs prescribes how a first-time adopter should prepare and present financial statements following the adoption of accrual basis IPSAS. IPSAS 33 provides relief to a first-time adopter in presenting its financial statements, and allows a first-time adopter certain voluntary exemptions during the period of transition. The Standard permits a first-time adopter to apply transitional exemptions and provisions that may impact fair presentation. As a result, IPSAS 33 has not been incorporated into this set of model consolidated financial statements. A brief summary is provided below for ease of reference and to create an awareness of the requirements of IPSAS 33. First-time adopters are encouraged to consult the Standard for further information and a comprehensive explanation of the available exemptions and related requirements.

General considerations

When applying IPSAS 33, one of the most important concepts to understand is the adoption date, as this drives the date from which an entity should prepare IPSAS financial statements. IPSAS 33.9 indicates that the date of adoption of IPSAS is the date that an entity adopts accrual basis IPSASs for the first time. IPSAS 33.10 clarifies that it is the start of the reporting period in which the first-time adopter adopts accrual basis IPSASs and for which it presents its first transitional IPSAS financial statements or its first IPSAS financial statements.

IPSAS 33.11 indicates that an entity's first IPSAS financial statements are the first annual financial statements in which the first-time adopter can make an explicit and unreserved statement of compliance with IPSASs. Financial statements shall not be described as complying with IPSASs unless they comply with all the requirements of all the applicable IPSASs. Thus, if a first-time adopter is making use of an exemption affecting fair presentation as allowed by IPSAS 33, the first-time adopter cannot claim compliance with IPSASs until the exemption expires or the relevant items are recognised, measured and the required information is presented and/or disclosed in the financial statements in accordance with the applicable IPSASs. It is thus noteworthy that, although a first-time adopter may have adopted IPSAS on a particular date and will refer to that date as its date of adoption, it would not be permissible to refer to the financial statements issued for the period that follows adoption as the first-time adopter's "first IPSAS financial statements" where transitional exemptions have been utilised that impact on fair presentation. In such cases, the financial statements may only be referred to as the "first transitional IPSAS financial statements."

IPSAS 33.15 requires a first-time adopter to prepare and present an opening statement of financial position at the date of adoption of IPSASs. This is the first-time adopter's statement of financial position at the date of adoption.

IPSAS 33.16 indicates that on the date of adoption the first-time adopter shall apply the requirements of the IPSASs retrospectively except if required, or otherwise permitted, in IPSAS 33. IPSAS 33.17 requires that the first-time adopter use the same accounting policies in its opening statement of financial position and throughout the periods presented except if any exemptions have been adopted. Accounting policies must comply with effective IPSASs, with the exception of allowed exemptions.

IPSAS 33.23 states that a first-time adopter's estimates in accordance with IPSASs at the date of adoption of the IPSASs must be consistent with the estimates made in accordance with the previous basis of accounting (after adjustments to reflect any differences in accounting policies) unless there is objective evidence that those estimates were inconsistent with the requirements of IPSASs. It should also be noted that IPSAS 33 prohibits retrospective application of some aspects of accrual basis IPSASs.

IPSAS 33.27 indicates that a first time adopter's first IPSAS financial statements must fairly present the financial position, financial performance and cash flows of the entity. IPSAS 33.31 states that a first time adopter must assess whether the transitional exemptions affect the fair presentation of the financial statements and the first-time adopter's ability to assert compliance with accrual basis IPSASs.

Exemptions that affect fair presentation and compliance with accrual basis IPSASs

IPSAS 33.36 provides a "Three-year Transitional Relief Period" under which a first-time adopter that has not recognized assets and/or liabilities under its previous basis of accounting may be exempted from recognizing and/or measuring those specific assets or liabilities for reporting periods beginning on a date within three years following the date of adoption of the relevant IPSASs. Per IPSAS 33.38, when the first-time adopter has recognized the assets and/or liabilities, it is not required to change its accounting policies in respect of the measurement of those items for reporting periods beginning on a date within three years following the date of adoption of the relevant IPSASs.

Therefore, the first-time adopter may change the accounting policies to conform to the accounting policies of the accrual basis IPSAS during the three-year transitional period. However, it may retain its existing accounting policies until the exemption relief period has expired.

Exemptions that do not affect fair presentation and compliance with accrual basis IPSASs during the period of adoption

There are a number of exemptions provided in IPSAS 33.64 - 33.164 that, in accordance with the Standard, are considered to not affect fair presentation and compliance with accrual basis IPSASs. One area that first-time adopters often find challenging is the measurement of assets where the acquisition cost of the asset is not available. IPSAS 33.64 provides some guidance to apply should such a situation occur, namely that a first-time adopter may measure certain assets and/or liabilities at fair value when reliable cost information about the assets and liabilities is not available. The fair value can be used as the deemed cost of assets such as property, plant and equipment, inventory, investment property and intangible assets, financial instruments and service concession assets. IPSAS 33.74 further states that the date at which the deemed cost can be determined may vary depending on the timing of recognition, which, in turn, depends on whether the first-time adopter takes advantage of the exemptions that provide a three-year relief period to not recognise or measure certain assets or liabilities.

Summary of transitional exemptions and provisions included in IPSAS 33

For a tabular summary of transitional exemptions and provisions included in IPSAS 33, reference can be made to the Implementation Guidance for IPSAS 33 (IG91). More detail on each of the exemptions can be found in IPSAS 33.36 - 33.62 for exemptions that affect fair presentation and compliance with accrual basis IPSASs and in IPSAS 33.64 - 33.134 for exemptions that do not affect fair presentation and compliance with accrual basis IPSASs.

For a differentiation between transitional exemptions and provisions that a first-time adopter is required to apply and/or can elect to apply on adoption of accrual basis IPSASs, refer to Appendix A of IPSAS 33. The Appendix also illustrates which exemptions affect fair presentation and compliance with accrual basis IPSASs and which do not.

Disclosures

A first-time adopter is encouraged but not required to present comparative information in its first transitional IPSAS financial statements or its first IPSAS financial statements as stated in IPSAS 33.77.

IPSAS 33.135 requires that if a first-time adopter complies with IPSAS 33 and takes advantage of the transitional exemptions which affect fair presentation of the financial statements, it would need to make a full unreserved statement that it complies with IPSAS 33, and will state that it does not fully comply with the accrual basis IPSAS.

According to IPSAS 33.136, if the first-time adopter takes advantage of the transitional exemptions, it must disclose:

a. The extent to which it has taken advantage of the exemptions that affect fair presentation; and/or
b. The extent to which it has taken advantage of the exemptions that do not affect fair presentation.

Where a first-time adopter has made use of the exemptions that affect fair presentation and compliance with accrual basis IPSASs, the first-time adopter will disclose the following:

a. Progress made towards recognising, measuring, presenting and/or disclosing assets, liabilities, revenue and/or expenses in accordance with the relevant IPSAS
b. The assets, liabilities, revenue and/or expenses recognised and measured under an accounting policy that is not consistent with the requirements of IPSAS
c. The assets, liabilities, revenue and/or expenses that have not been recognized and measured, and/or presented and/or disclosed in the previous period, but which are now recognized and/or measured, and/or presented and/or disclosed
d. The nature and amount of adjustments recognised during the reporting period
e. An indication of how and by when it intends to comply in full with the requirements of the applicable IPSAS

IPSAS 33.141 requires the first-time adopter to disclose the date of adoption of IPSASs and provide explanations about how the transition from the previous basis of accounting to IPSASs affects its reported financial position and if appropriate, its financial performance and cash flows.

Furthermore, IPSAS 33.142 requires the first-time adopter who adopts accrual basis IPSASs for the first time, to disclose a reconciliation in the notes to the financial statements of:

a. Its net assets or equity reported according to the previous basis of accounting to its opening balance of the net assets or equity at the date of adoption; and
b. Its surplus or deficit in accordance with the previous basis of accounting to its opening balance of surplus or deficit at the date of adoption.

However, a first-time adopter that has applied a cash basis of accounting in its previous financial statements is not required to present such reconciliations.

The first-time adopter is required to disclose the reconciliations in IPSAS 33.142 in sufficient detail including both qualitative and quantitative information in order for users to understand the adjustments to the opening statement of financial position.

If an entity did not present financial statements in previous periods, its transitional IPSAS financial statements, or its first IPSAS financial statements, shall disclose this fact as required by IPSAS 33.145.

IPSAS 33.146 states that where a first-time adopter has taken advantage of the three-year transitional relief period to not recognize and/or measure items, it shall present a reconciliation of items that have been recognized and/or measured during the reporting period when these items were not included in the previous reported financial statements. This shall be presented in each period when new items are recognized and/or measured. It should further be noted that, according to IPSAS 33.151, where the first-time adopter has not recognized and/or measured items due to taking advantage of the exemptions, it is not required to apply any associated presentation and/or disclosure requirements related to such items as required in IPSAS 1, IPSAS 18 and/or other applicable IPSASs until the exemption has expired or the items have been recognised and/or measured.

According to IPSAS 33.148, if the first-time adopter has used the fair value as its deemed cost for certain assets, the first-time adopter must disclose in their financial statements:

a. The aggregate of those fair values or other measurement alternatives that were considered in determining the deemed cost;
b. The aggregate adjustment to the carrying amounts recognised under the previous basis of accounting; and
c. Whether the deemed cost was determined at the date of adoption or during the period of transition.

The Standard also contains additional disclosure requirements related to controlled entities, joint ventures and associates in IPSAS 33.138.139 and 33.149 - 33.150.

Consolidated statement of financial performance

For the year ended 31 December 2018

	Notes	2018 €000	2017 €000	
		2018	2017	IPSAS 1.53, IPSAS 1.63 (c)
	Notes	€000	€000	IPSAS 1.53, IPSAS1.63 (d) & (e)
Revenue from non-exchange transactions				IPSAS 1.102 (a) IPSAS 1 108
Property taxes revenue	3	4,706,641	4,524,363	IPSAS 1.104, IPSAS1.106
Public contributions and donations	4	63,661	79,720	IPSAS 1.104, IPSAS1.106
Fines, penalties and levies	5	1,781,670	1,677,436	IPSAS 1.104, IPSAS1.106
Licenses and permits		41,471	37,645	IPSAS 1.104, IPSAS1.106
Transfers from other governments – gifts and services-in-kind	6	3,757,835	2,636,469	IPSAS 1.104, IPSAS1.106
		10,351,278	8,955,633	
Revenue from exchange transactions				
Rendering of services	7	2,243,622	2,037,164	IPSAS 9.39 (b) (i)
Sale of water and electricity	8	9,869,262	8,456,389	IPSAS 9.39 (b) (ii)
Rental revenue from facilities and equipment	9	289,736	250,316	IPSAS 9.39 (b) (i) (ii)
Finance income - external investments	10	339,970	293,300	IPSAS 9.39 (b) (iii)
Finance income - outstanding receivables	11	228,425	230,391	IPSAS 9.39 (b) (iii)
Agency fees		123,651	115,991	IPSAS 1.106
Other income	12	331,513	253,906	IPSAS 1.104
		13,426,179	11,637,457	IPSAS 1 108
Total revenue		23,777,457	20,593,090	IPSAS 1.104
Expenses				
Bulk purchases of water and electricity	13	5,705,263	4,620,165	IPSAS 1.109 - 112, IPSAS 1.106
Employee costs	14	6,955,786	6,184,573	
Remuneration of councillors	15	97,916	88,858	
Depreciation and amortization expense	16	1,394,834	1,283,682	
Repairs and maintenance	17	2,262,311	2,072,023	
Contracted services	18	7,769	9,941	
Grants and subsidies	19	103,502	93,393	
General expenses	20	3,075,160	2,738,305	
Finance costs	21	683,166	719,170	IPSAS 1 102 (b)
Collection cost		166,380	174,755	IPSAS 1.109 - 112, IPSAS 1.106
Total expenses		20,452,087	17,984,865	IPSAS 1. 104
Other gains/(losses)				IPSAS 1. 104
Gain on sale of assets	22	42,397	16,909	IPSAS 1.107(c)
Gain on foreign exchange transactions		44	32	IPSAS 1.104
Unrealized gain on fair value of investments	23	1,543	6,866	IPSAS 1.104
Impairment loss	24	(848,238)	(799,494)	IPSAS 1.107(a)
Share of surplus of associate		725	-	IPSAS 38.35 (a)
Surplus before tax		2,521,841	1,832,538	IPSAS 1.102 (d)
Taxation	25	(4,104)	(6,455)	
Surplus for the period		2,517,737	1,826,083	IPSAS 1.102 (d)
Attributable to:				
Surplus/(deficit) attributable to non-controlling interest		3,326	(1,160)	IPSAS 1.103 (a), IPSAS 38.19 (e)
Surplus attributable to owners of the controlling entity		2,514,411	1,827,243	IPSAS 1.103 (b)
		2,517,737	1,826,083	

Commentary

IPSAS 1.21 suggests titles for the primary financial statements, such as ‘statement of financial performance’ or ‘statement of financial position’. However, IPSAS 1.22 clarifies that entities are permitted to use other titles, e.g., ‘income statement’ or ‘balance sheet’. Also, neither IPSAS 35 nor IPSAS 1 requires the separate financial statements of the controlling entity to accompany the consolidated financial statements. Accordingly, for the presentation of the Group’s consolidated financial statements, the separate financial statements are not presented. Preparers of financial statements should, however, be mindful of jurisdiction-specific requirements that may require the separate financial statements of the controlling entity to accompany the consolidated financial statements.

IPSAS 1.102(a) requires disclosure of revenue on the face of the statement of financial performance. The Group has elected to present the various types of revenue on the face of the statement of financial performance considering the nature and materiality of the revenue items (per IPSAS 1.105). The Group has also elected to disclose total revenue as a line item on the face of the statement of financial performance. This information could also be provided in the notes (see IPSAS 1.108).

IPSAS 1.88(g) and IPSAS 1.88(h) require differentiation between receivables from exchange transactions and receivables from non-exchange transactions. IPSAS 23.106(a) also requires revenue from non-exchange transactions to be disclosed separately, either on the face of the statement of financial performance or in the notes to the financial statements. When considering the analysis that the users of the financial statements may perform on the financial statements, providing a similar split of revenue from exchange transactions and revenue from non-exchange transactions on the face of the statement of financial performance (rather than in the notes) may enhance the understandability of the financial statements. Providing a split between revenue from exchange transactions and revenue from non-exchange transactions, enables users of the financial statements to reconcile the revenue and receivable line items presented.

IPSAS 1.109 requires expenses to be presented based on either their function or nature. The Group elected to present the expenses by nature.

The remuneration of councillors relates to their services as the members of the governing body of the municipality. IPSAS 20.21 and 20.34 requires disclosure of the remuneration of members of key management. Accordingly, inclusion of this line item aids in the fulfilment of the requirement of IPSAS 20.

IPSAS currently does not have a standard on accounting for income tax expenses (IPSAS 23 deals with accounting for taxation revenues). Moreover, IPSAS 1 does not require the presentation of an income tax line item. Typically, many entities within the public sector are exempt from income tax. However, in this instance, the Group is not exempt from income tax. As such, the guidance in IAS 12 Income Taxes is applied in preparing the financial statements of the Group. The use of IAS 12 for the formulation of the Group’s accounting policy is required by IPSAS 19.14, which is stated in relation to the hierarchy for the selection of accounting policies provided in IPSAS 3. This guidance stipulates that in the absence of an IPSAS that specifically applies to a transaction, other event or condition other financial reporting frameworks, such as IFRS, may be applied in selecting the accounting policy for that specific transaction, event or circumstance.

Consolidated statement of financial position

As at 31 December 2018

	Notes	2018 €000	2017 €000	IPSAS 1.53, IPSAS 1.63 (c) / IPSAS 1.53, IPSAS1.63 (d) (e)
Assets				
Current assets				
Cash and cash equivalents	26	3,481,533	3,304,129	IPSAS 1.88 (i)
Receivables from exchange transactions	27	2,912,503	2,551,029	IPSAS 1.88 (h)
Receivables from non-exchange transactions	28	1,378,826	1,359,401	IPSAS 1.88 (g)
Current portion of long-term receivables from exchange transactions	27	19,758	19,193	IPSAS 1.88 (g)
Inventories	29	254,385	236,634	IPSAS 1.88 (f)
Investments	30	2,883,350	2,146,596	IPSAS 1.88 (b)
		10,930,355	9,616,982	IPSAS 1.70, IPSAS 1.76
Non-current assets				
Property, plant and equipment	31	24,412,408	21,783,237	IPSAS 1.88 (a)
Investments	30	47,658	-	IPSAS 1.88 (e)
Investment in associates	46	63,834	-	IPSAS 36.21
Intangible assets	32	100,432	44,884	IPSAS 1.88 (c)
Investment property	33	192,478	84,999	IPSAS 1.88 (b)
Long term receivables from exchange transactions	27	99,328	115,526	IPSAS 1.88 (g)
Goodwill	44	80,480	-	IPSAS 40.120 (i)
		24,996,618	22,028,646	IPSAS 1.70, IPSAS 1.76
Total assets		35,926,973	31,645,628	IPSAS 1.89
Liabilities				
Current liabilities				
Trade and other payables from exchange transactions	34	3,799,494	3,356,178	IPSAS 1.88 (k)
Refundable deposits from customers	35	291,441	244,695	IPSAS 1.89
Provisions	36	385,299	327,645	IPSAS 1.88 (l)
Finance lease obligation	41	-	2,134	
Current portion of borrowings	42	286,962	126,354	
Grant liability	37	1,665,752	1,108,680	IPSAS 1.89
Employee benefit obligation	40	652,726	628,147	IPSAS 1.88 (m)
Payments received in advance		57,756	57,368	IPSAS 1.89
Taxation		2,393	528	IPSAS 1.88 (m)
		7,141,823	5,851,729	IPSAS 1.70
Non-current liabilities				
Non-current employee benefit obligation	40	5,569,807	5,674,925	IPSAS 1.88 (m)
Non-current provisions	39	2,583,436	2,157,556	IPSAS 1.88 (l)
Borrowings	42	1,142,865	1,354,781	
Service concession liability	50	349,900	-	
Deferred tax liabilities	25	6,941	-	
Contingent liability	44	79,468	8,353	IPSAS 40.120 (i)
		9,355,602	8,882,088	IPSAS 1.70
Total liabilities		16,497,425	14,733,817	IPSAS 1.89

Net assets	19,429,548	16,911,811	IPSAS 1.88 (o)
Reserves	2,291,718	2,310,604	IPSAS 1.88 (o), IPSAS 1.94 (f), IPSAS 1.95 (a)
Accumulated surplus	17,002,060	14,468,763	IPSAS 1.88 (o), IPSAS 1.94 (f), IPSAS 1.95 (a)
Non-controlling interest	135,770	132,444	IPSAS 38.19 (f)
Total net assets and liabilities	35,926,973	31,645,628	IPSAS 1.89

Commentary

Neither IPSAS 35 nor IPSAS 1 require the separate financial statements of the controlling entity to accompany the consolidated financial statements. Accordingly, for the presentation of the Group's consolidated financial statements, the separate financial statements are not presented. Preparers of financial statements should, however, be mindful of jurisdiction-specific requirements that may require the separate financial statements of the controlling entity to accompany the consolidated financial statements.

In accordance with IPSAS 1.70, the Group has classified its statement of financial position into current and non-current assets, and current and non-current liabilities. IPSAS 1 requires that an entity present current and non-current assets and liabilities separately in the statement of financial position, unless a presentation based on liquidity provides information that is faithfully representative and is more relevant. Where the order of liquidity approach is utilized, an entity is required to separately disclose the amounts that are expected to be settled or recovered within 12 months and those expected to be settled or recovered in more than 12 months. This separate disclosure is required where line items in the statement of financial position combine amounts to be settled or recovered within 12 months with amounts to be settled or recovered in more than 12 months.

Consolidated statement of changes in net assets

For the year ended 31 December 2018

	Attributable to the owners of the controlling entity						
	Reserves						
	Self-insurance reserve	Capital replacement reserve	Housing development reserve	Accumulated surplus	Non-controlling interest	Total	IPSAS 1.119 (c)
	€000	€000	€000	€000	€000	€000	IPSAS 1.53, 63 (d) (e)
Balance as at 31 December 2016	658,175	615,876	508,617	13,169,456	133,604	15,085,728	
Surplus/(deficit) for the period	-	-	-	1,827,243	(1,160)	1,826,083	IPSAS 1.118 (a) (c)
Transfers to/from accumulated surplus	(73,012)	570,495	30,453	(527,936)	-	-	
Balance as at 31 December 2017	585,163	1,186,371	539,070	14,468,763	132,444	16,911,811	
Surplus for the period	-	-	-	2,514,411	3,326	2,517,737	IPSAS 1.118(a)(c)
Transfers to/from accumulated surplus	(88,981)	87,702	(17,607)	18,886	-	-	
Balance as at 31 December 2018	496,182	1,274,073	521,463	17,002,060	135,770	19,429,548	

Commentary

IPSAS 1 does not prohibit the separate disclosure of components of net assets/equity (which may include reserves required by IPSAS and other reserves relevant to the entity's management of net assets). However, care should be exercised to avoid the inappropriate recognition of income or expenditure directly to reserves. Unless specifically allowed or required by an IPSAS, movements in such reserves (other than contributions from owners) may only arise from transfers to or from accumulated surplus (i.e. transfers within net assets). To illustrate how this may be presented, several reserves have been disclosed separately in the Group's consolidated statement of changes in net assets, showing the reconciliation between opening and closing carrying amounts.

Consolidated statement of cash flows

	Notes	2018	2017	
		€000	€000	IPSAS 1.53, IPSAS 1.63 (c) IPSAS 1.53, IPSAS1.63 (d) (e)
Cash flows from operating activities				IPSAS 2.18, IPSAS 2.27
Receipts				
Property taxes		5,387,898	4,589,492	IPSAS 2. 27 (a)
Public contributions and donations		63,661	79,720	IPSAS 2. 27(a), IPSAS 2.22 (c)
Fines, penalties and levies		1,781,670	1,677,436	IPSAS 2. 27(a), IPSAS 2.22 (a)
Licenses and permits		41,471	37,645	IPSAS 2. 27(a), IPSAS 2.22 (b)
Government grants and subsidies		4,314,907	2,635,544	IPSAS 2. 27(a), IPSAS 2.22 (d)
Rendering of services		1,442,398	1,745,995	IPSAS 2. 27(a), IPSAS 2.22 (d)
Sale of goods		9,257,191	8,201,772	IPSAS 2. 27(a), IPSAS 2.22 (c)
Finance income		454,183	408,496	IPSAS 2. 27 (a)
Other income, rentals and agency fees		315,281	290,668	IPSAS 2. 27 (a), IPSAS 2.22 (a)
		23,058,660	19,666,768	IPSAS 2. 27 (a)
Payments				
Compensation of employees		10,914,327	9,301,878	IPSAS 2. 27 (a), IPSAS 2.22 (g)
Goods and services		5,934,897	5,686,507	IPSAS 2. 27 (a), IPSAS 2.22 (f)
Finance cost		663,394	710,888	IPSAS 2. 27 (a),
Rent paid		23,789	21,164	IPSAS 2. 27 (a), IPSAS 2.22 (f)
Taxation paid		4,663	9,981	IPSAS 2. 27 (a), IPSAS 2.22 (i)
Other payments		156,293	139,449	IPSAS 2. 27 (a)
Grants and subsidies paid		103,502	93,393	IPSAS 2. 27 (a), IPSAS 2.22 (i)
		17,800,865	15,963,260	
Net cash flows from operating activities	49	5,257,795	3,703,508	
Cash flows from investing activities				IPSAS 2.18, IPSAS 2.31
Purchase of property, plant, equipment and intangible assets		(3,953,098)	(2,895,348)	IPSAS 2.25 (a)
Proceeds from sale of property, plant and equipment		46,066	63,544	IPSAS 2.25 (b)
Decrease in non-current receivables		15,633	1,819	
Increase in investments		(736,806)	(1,962,720)	IPSAS 2.25 (c)
Acquisition of controlled entity		(300,000)	-	IPSAS 2.50(b)
Net cash flows used in investing activities		(4,928,205)	(4,792,705)	
Cash flows from financing activities				IPSAS 2.18, IPSAS 2.31
Proceeds from borrowings		431	335	IPSAS 2.26 (a)
Repayment of borrowings		(199,363)	(262,568)	IPSAS 2.26 (b), IPSAS 2.26 (c)
Increase in deposits		46,746	2,102	
Net cash flows used in financing activities		(152,186)	(260,131)	
Net increase/(decrease) in cash and cash equivalents		177,404	(1,349,328)	
Cash and cash equivalents at 1 January	26	3,304,129	4,653,456	
Cash and cash equivalents at 31 December	26	3,481,533	3,304,128	IPSAS 2.56

Commentary

IPSAS 2.27 allows entities to report cash flows from operating activities using either the direct method or the indirect method. The Group presents its cash flows using the direct method.

IPSAS 2.42 permits interest paid to be shown as operating or financing activities and interest received to be shown as operating or investing activities, as deemed relevant for the entity. The Group has elected to classify interest received as cash flows from operating activities.

Consolidated statement of comparison of budget and actual amounts

For the year ended 31 December 2018

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	Variance percentage of final budget	Notes	IPSAS 24.14(a)(b)
	2018	2018	2018	2018	2018			IPSAS 1.53, 63 (c)
	€000	€000	€000	€000	€000			IPSAS 1.53, 63 (d) (e)
Revenue								IPSAS 24.47 (a)
Property taxes	1 950 000	-	1 950 000	1 946 405	3 595	0%		
Public contributions and donations	46 000	(2 000)	44 000	39 785	4 215	10%	53.2.1	
Fines, penalties and levies	1 796 000	(14 050)	1 781 950	1 781 670	280	0%		
Licenses and permits	42 000	-	42 000	41 471	529	1%		
Government grants and subsidies	1 370 000	-	1 370 000	1 369 953	47	0%		
Rendering of services	1 528 600	(246 800)	1 281 800	1 002 897	278 903	22%	53.2.2	
Sale of goods	9 870 000	-	9 870 000	9 869 262	738	0%		
Finance Income	141 200	-	141 200	141 116	84	0%		
Gains on disposal, rental income and agency fees	133 000	3 564	136 564	137 080	(516)	0%		
Total income	16 876 800	(259 286)	16 617 514	16 329 639	287 875			
Expenses								
Compensation of employees	5 456 000	-	5 456 000	5 455 231	769	0%		
Goods and services	6 990 000	110 000	7 100 000	7 860 732	(760 732)	-11%	53.2.3	
Finance cost	304 000	(33 503)	270 497	269 715	782	0%		
Rent paid	5 892	-	5 892	5 892	0	0%		
Taxation paid	4 250	350	4 600	4 104	496	11%		
Other expenses	1 041 991	540 000	1 581 991	1 804 169	(222 178)	-14%	53.2.4	
Grants and subsidies paid	100 000	-	100 000	95 841	4 159	4%		
Total expenditure	13 902 133	616 847	14 518 980	15 495 684	(976 704)			
Surplus for the period	2 974 667	-876 133	2 098 534	833 955	1 264 579			

Commentary

IPSAS 24 requires a comparison of budget amounts and actual amounts arising from the execution of the budget to be included in the financial statements of entities that are required to, or elect to, make publicly available their approved budget(s), and for which they are, therefore, held publicly accountable. The Group prepares its budget on an accrual basis. As such, the budget and the financial statements are already on the same basis and further adjustments are not required to align the financial statements to the budget. The Group has the option to present this comparison either as a separate additional financial statement or as additional budget columns in the financial statements (IPSAS 24.14). The Group has chosen to present the comparison separately. For entities that do not prepare budget(s) and financial statements on a comparable basis, a separate statement of comparison of budget and actual amounts must be presented. Further, to ensure that readers do not misinterpret financial information that is prepared on different bases, the financial statements should clarify that the budget and accounting bases differ, and that the statement of comparison of budget and actual amounts is prepared on the budget basis (IPSAS 24.39).

When comparing the actual total revenue and expenditure amounts, as presented above, to the statement of financial performance, it will be noted that the total lines do not agree exactly to the total lines in the statement of financial performance. The reason for these differences is that the gains and losses that were presented under "Other gains and losses" in the statement of financial performance were grouped with revenue and expenditure for the purpose of reporting the comparison between the budget and actual. For the purpose of preparing its budget, the Group includes estimated gains and losses with revenue and expenditure. As such, the budget statement, as presented above, also reflects the classification adopted for budgeting purposes.

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Notes to the consolidated financial statements

1. General information

The consolidated financial statements of the Group for the year ended 31 December 2018 were authorized for issue in accordance with the resolution of the Governing Body on 30 March 2019. The Group's principal activities are the provision of infrastructure, social housing, health services, waste management, emergency services and sale of electricity and water to the residents of the municipality. The Group's registered office is located in Euroland.

IPSAS 14.26,
IPSAS 1.63 (b) (c)
IPSAS 1.150 (a-d)

2.1 Statement of compliance and basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The consolidated financial statements are presented in euros, which is the functional and reporting currency of the Group and all values are rounded to the nearest thousand (€000). The accounting policies have been consistently applied to all the years presented.

IPSAS 1.127 (a)
IPSAS 1.28
IPSAS 1.63 (d) (e)

The consolidated financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The consolidated financial statements are prepared on an accrual basis.

IPSAS 1.132 (a)

2.2 Summary of significant accounting policies

a) Consolidation

Controlled entities

IPSAS 35.5

The controlled entities are all those entities over which the controlling entity is exposed or has rights to variable benefits of the controlled entities and has the ability to affect the nature or amount of those benefits through its power over the controlled entities. The controlled entities are fully consolidated from the date on which control is transferred to the controlling entity. They are deconsolidated from the date that control ceases. Inter-group transactions, balances and unrealized gains and losses on transactions between members of the group are eliminated in full on consolidation. The accounting policies of the controlled entities are consistent with the policies adopted by the controlling entity.

IPSAS 35.39
IPSAS 35.40 (c)
IPSAS 35.38

b) Interest in joint operation

The Group has an interest in a joint operation, whereby the joint operators have a binding arrangement that establishes joint control over the relevant activities of the entity. The Group recognizes in relation to its interest in the joint operation its share of each of the assets, liabilities, income and expenses of the joint operation with similar items, line by line, in its consolidated financial statements. The financial statements of the joint operation are prepared for the same reporting period as the Group. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

IPSAS 37.7
IPSAS 37.23
IPSAS 35.38
IPSAS 37.22

Upon loss of joint control, the Group discontinues its recognition of its share of the joint operation's assets, liabilities, income and expenses and assesses whether any continuing interest in the former joint operation should be accounted for as a controlled entity, associate or investment in terms of IPSAS 29.

c) Investment in associate

The Group's investment in its associate is accounted for using the equity method. An associate is an entity over which the Group has significant influence.

IPSAS 36.22

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment.

IPSAS 36.8
IPSAS 36.35

The statement of financial performance reflects the share of the results of the operations of the associate. Where there has been a change recognized directly in the net assets of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in net assets. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

IPSAS 36.31

The share of surplus or deficit of associates is shown on the face of the statement of financial performance. This is the surplus attributable to equity holders of the associate and therefore is the surplus after tax and non-controlling interests in the controlled entities of the associates.

2.2 Summary of significant accounting policies continued

The financial statements of the associate are not prepared for the same reporting period as the controlling entity. Where necessary, adjustments are made to bring the reporting period and accounting policies in line with those of the Group. IPSAS 36.37)

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. IPSAS 36.43 IPSAS 36.44

If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the income statement.

If the interest ceases to be an associate (for example due to a loss of significant influence or where it becomes a controlling interest), the Group discontinues equity accounting and assesses whether it is required to consolidate the interest or to account for any retained interest as an investment at its fair value. The fair value of the retained interest on the date that significant influence is lost is regarded as its fair value on initial recognition as a financial asset in accordance with IPSAS 29. IPSAS 36.26 (b)

d) Revenue recognition

Revenue from non-exchange transactions

Fees, taxes and fines

IPSAS 23.107 (b) IPSAS 23.107 (a)

The Group recognizes revenues from fees, taxes and fines when the event occurs and the asset recognition criteria are met. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

Transfers from other government entities

IPSAS 23.107 (a)

Revenue from non-exchange transactions with other government entities is measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Group and can be measured reliably. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, a grant liability is recognized instead of revenue.

Revenue from exchange transactions

Rendering of services

The Group recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours. IPSAS 9.19 IPSAS 9.39(a)

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable. IPSAS 9.25

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods, and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the Group. IPSAS 9.28 IPSAS 9.39 (a)

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount. The method applies this yield to the principal outstanding to determine interest income for each period. IPSAS 9.34 (a) IPSAS 9.39 (a)

Dividends

Dividends or similar distributions must be recognized when the shareholder’s or the Group’s right to receive payments is established. IPSAS 9.34 (c)

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue. IPSAS 13.63 IPSAS 16.86(f)

e) Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Group operates and generates taxable income. IAS 12.46

2.2 Summary of significant accounting policies continued

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. IAS 12.61A(b)

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. IAS 12.39

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized. IAS 12.34 IAS 12.24 IAS 12.44

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. IAS 12.56 IAS 12.37

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. IAS 12.47

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. IAS 12.61A

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority. IAS 12.71

Sales tax*

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

* Sales tax may also be referred to a value-added tax in certain jurisdiction.

f) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property. IPSAS 16.26 IPSAS 16.86(a)

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period. IPSAS 16.27 IPSAS 16.39 IPSAS 16.42

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its IPSAS 16.77 IPSAS 16.80

disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of derecognition. IPSAS 16.66 IPSAS 16.71 IPSAS 16.74

Transfers are made to or from investment property only when there is a change in use.

2.2 Summary of significant accounting policies continued

Commentary IPSAS 16.39

Under IPSAS 16, an entity has a policy choice for the measurement of investment property after initial recognition. An entity may choose either the cost model or the fair value model for all of its investment properties. The Group has elected to use the cost model for all investment property.

g) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value. IPSAS 17.88 (a) IPSAS 17.43 IPSAS 17.30 IPSAS 17.24 IPSAS 17.25 IPSAS 17.23

Commentary IPSAS 17.27 IPSAS 17.88 (b) IPSAS 17.59

Under IPSAS 17 an entity has a policy choice for the measurement of property, plant and equipment after initial recognition. An entity may choose either the cost model or the revaluation model for entire classes of property, plant and equipment. The Group has elected to use the cost model for all classes of property, plant and equipment.

IPSAS 17.27 requires property, plant and equipment that are acquired through non-exchange contracts to be measured at the fair value thereof at the date of acquisition. In this case, the corresponding credit is recognized as income in the statement of financial performance, unless there are conditions on the asset's use. In this case, income is deferred as a liability. The fair value of the item (at initial recognition) is therefore adopted as the deemed cost of the item received. Similar requirements exist for other assets acquired through non-exchange transactions such as investment property (IPSAS 16.27) and intangible assets (IPSAS 31.43).

Depreciation on assets is charged on a straight-line basis over the useful life of the asset. Depreciation is charged at rates calculated to allocate the cost or valuation of the asset less any estimated residual value over its remaining useful life:

Buildings	30 – 40 years
Infrastructure	30 – 40 years
Machinery and equipment	10 – 20 years
Leased assets	5 – 10 years
Housing rental	60 – 80 years
Other assets	10 – 15 years

Leased assets consist of vehicles and machinery and Other assets include furniture & fittings and office equipment.

The assets' residual values and useful lives are reviewed, and adjusted prospectively, if appropriate, at the end of each reporting period. IPSAS 17.67

An asset's carrying amount is written down immediately to its recoverable amount, or recoverable service amount, if the asset's carrying amount is greater than its estimated recoverable amount or recoverable service amount. IPSAS 17.79 IPSAS 26.72

The Group derecognizes items of property, plant and equipment and/or any significant part of an asset upon disposal or when no future economic benefits or service potential is expected from its continuing use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the surplus or deficit when the asset is derecognized. IPSAS 17.82 IPSAS 17.83 IPSAS 17.86

h) Leases

Group as a lessee

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Group. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The IPSAS 13.13 IPSAS 13.28 IPSAS 13.34

Group also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition. IPSAS 13.36 IPSAS 13.37

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit. IPSAS 13.42

2.2 Summary of significant accounting policies continued

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term. IPSAS 13.13 IPSAS 13.65

Rent received from an operating lease is recognized as income on a straight-line basis over the lease term. Contingent rents are recognized as revenue in the period in which they are earned.

i) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. IPSAS 31.31 IPSAS 31.43

The useful life of the intangible assets is assessed as either finite or indefinite. IPSAS 31.73

Intangible assets with a finite life are amortized over its useful life: IPSAS 31.55

Application Software	10 – 20 years

IPSAS 31.87 IPSAS 31.96 IPSAS 26.22 IPSAS 31.103

Intangible assets with a finite useful life are assessed for impairment whenever there is an indication that the asset may be impaired.

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on an intangible asset with a finite life is recognized in surplus or deficit as the expense category that is consistent with the nature of the intangible asset. IPSAS 31.117 IPSAS 31.106 IPSAS 31.107 IPSAS 31.108 IPSAS 31.112

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the surplus or deficit when the asset is derecognized.

Research and development costs

IPSAS 31.52 IPSAS 31.55

The Group expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Group can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential IPSAS 31.73
- The availability of resources to complete the asset IPSAS 26.23

IPSAS 26.73

- The ability to measure reliably the expenditure during development IPSAS 31.121

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

2.2 Summary of significant accounting policies continued

j) Impairment of non-financial assets

Impairment of cash generating assets

At each reporting date, the Group assesses whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. IPSAS 26.22 IPSAS 26.13 IPSAS 26.78

Where the carrying amount of an asset or the cash generating unit (CGU) exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. IPSAS 26.72

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. IPSAS 26.43 IPSAS 26.68

Impairment losses of continuing operations, including impairment on inventories, are recognized in the statement of financial performance in those expense categories consistent with the nature of the impaired asset. IPSAS 26.99 IPSAS 26.103

Goodwill is tested for impairment on an annual basis. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in surplus or deficit. IPSAS 26.103 IPSAS 26.106 IPSAS 26.108

Impairment of non cash generating assets

The Group assesses at each reporting date whether there is an indication that a non cash generating asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable service amount. An asset's recoverable service amount is the higher of the non cash generating asset's fair value less costs to sell and its value in use. IPSAS 21.26 IPSAS 21.14

Where the carrying amount of an asset exceeds its recoverable service amount, the asset is considered impaired and is written down to its recoverable service amount. IPSAS 21.52

In assessing value in use, the Group has adopted the depreciation replacement cost approach as it has determined this to be appropriate due to the nature of the assets. Under this approach, the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset. IPSAS 21.45 IPSAS 21.40-42

In determining fair value less costs to sell, the price of the assets in a binding arrangement in an arm's length transaction, adjusted for incremental costs that would be directly attributed to the disposal of the asset is used. If there is no binding agreement, but the asset is traded on an active market, fair value less cost to sell is the asset's market price less cost of disposal. If there is no binding sale agreement or active market for an asset, the Group determines fair value less cost to sell based on the best available information.

For each asset, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's recoverable service amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable service amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable service amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in surplus or deficit. IPSAS 21.59 IPSAS 21.65 IPSAS 26.68-69

2.2 Summary of significant accounting policies continued

Commentary

The classification of assets as non-cash generating assets is a highly judgmental matter. It should be noted that IPSAS 21.16 clarifies that cash generating assets are those assets that are held with the primary objective of generating a commercial return. Therefore, non-cash generating assets would be those assets from which the Group does not intend (as its primary objective) to realize a commercial return.

k) Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition. IPSAS 29.10 IPSAS 30. 31

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset. IPSAS 29.40

The Group's financial assets include: cash and short-term deposits; trade and other receivables; loans and other receivables; quoted and unquoted financial instruments; and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification.

Financial assets at fair value through surplus or deficit

Financial assets at fair value through surplus or deficit include financial assets held for trading and financial assets designated upon initial recognition at fair value through surplus and deficit. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through surplus or deficit are carried in the statement of financial position at fair value with changes in fair value recognized in surplus or deficit. IPSAS 29.10 IPSAS 29.47 IPSAS 29.64 (a)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit. IPSAS 29.10 IPSAS 29.48 (a) IPSAS 29.65

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and IPSAS 29.10 IPSAS 29.48 (b) IPSAS 29.63 (a) fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Commentary

The Group does not hold any available-for-sale financial assets. An illustrative disclosure for entities that hold available-for-sale financial assets is as follows:

Available-for-sale financial assets

The Group classifies available-for-sale financial assets as non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity or financial assets at fair value through surplus or deficit.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with gains or losses recognized directly in net assets through the statement of changes in net assets until the financial asset is derecognized, at which time the cumulative gain or loss is recognized in surplus or deficit.

Derecognition

The Group derecognizes a financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets when: IPSAS 29.19

- The rights to receive cash flows from the asset have expired or is waived

IPSAS 29.20-22

2.2 Summary of significant accounting policies continued

- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party; and either:
  - (a) the Group has transferred substantially all the risks and rewards of the asset; or
  - (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators: IPSAS 29.67-68 IPSAS 30.AG5 (f)

- Debtors or a group of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. IPSAS 29.72-73

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. IPSAS 29. AG117 IPSAS 30.20 IPSAS 29.73 IPSAS 29.AG126 IPSAS 30.AG5 (d) (i) (ii)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in surplus or deficit. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other income in surplus or deficit.

Commentary

The Group does not hold any available-for-sale financial assets. An illustrative disclosure of impairment considerations for entities that hold available-for-sale financial assets is, as follows:

Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of financial assets classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value was below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the surplus or deficit – is removed from the reserve in net assets and recognized in surplus or deficit.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in surplus or deficit.

2.2 Summary of significant accounting policies continued

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. IPSAS 29.10

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs. IPSAS 29.45 IPSAS 29.49

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, and financial guarantee contracts.

Subsequent measurement

The measurement of financial liabilities depends on their classification.

Financial liabilities at fair value through surplus or deficit

Financial liabilities at fair value through surplus or deficit include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through surplus or deficit. IPSAS 29.10 IPSAS 29.49 (a)

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group, that are not designated as hedging instruments in hedge relationships as defined by IPSAS 29.

Gains or losses on liabilities held for trading are recognized in surplus or deficit. IPSAS 29.64 (a)

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process. IPSAS 29.65

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. IPSAS 29.41

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in surplus or deficit. IPSAS 29.43

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. IPSAS 28.47

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. IPSAS 29.51

Derivative financial instruments

IPSAS 29.10

2.2 Summary of significant accounting policies continued

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. IPSAS 29.45 IPSAS 30.25

Any gains or losses arising from changes in the fair value of derivatives are taken directly to surplus or deficit. The Group does not apply hedge accounting. IPSAS 29.106 (a) (b) IPSAS 29.99 (a) (b)

Commentary

Although some of the hedges of the Group qualified for hedge accounting, the Group opted not to apply hedge accounting. As such, further consideration of hedging and hedge accounting was omitted from the accounting policy. Where hedge accounting is applied by an entity, the following treatment would apply:

Fair value hedges

The change in the fair value of a hedging derivative is recognized in the statement of financial performance as finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the statement of financial performance as finance costs.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized directly in statement of changes in net assets in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the statement of financial performance as other operating expenses.

l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts. IPSAS 2.8 IPSAS 2.9 IPSAS 2.56

Commentary

The Group considers bank overdrafts to be an integral part of its cash management practices. Accordingly, bank overdrafts are grouped as part of cash and cash equivalents for the purpose of preparing the cash flow statement.

m) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and condition are accounted for as follows: IPSAS 12.15

- Raw materials: purchase cost using the weighted average cost method IPSAS 12.17 (a)
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs IPSAS 12.16

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost. IPSAS 12.18 IPSAS 12.35 IPSAS 12.20 IPSAS 12.21

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. IPSAS 12.9

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Group.

n) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. IPSAS 19.22 IPSAS 19.56

2.2 Summary of significant accounting policies continued

Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. IPSAS 19.63

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement. IPSAS 19.64

Rehabilitation liability

Rehabilitation costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of that particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the rehabilitation liability. The unwinding of the discount is expensed as incurred and recognized in the statement of financial performance as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset. IPSAS 17.30 (c) IPSAS 19.53

Contingent liabilities

The Group does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. IPSAS 19.35 IPSAS 19.36 IPSAS 19.100

Contingent assets

The Group does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs. IPSAS 19.39

Commentary

IPSAS 19 provides a choice of presenting expenditures to settle a provision either net of any reimbursement or on a gross basis. The Group has elected to present the expenses net of reimbursements. Reimbursements are accounted for separately.

IPSAS 19.44–46 requires provisions to be measured as the best estimate of the present value of the amount required to settle the obligation. In making this estimate the Group considers the probability of the various uncertain outcomes of the obligation.

o) Nature and purpose of reserves

The Group creates and maintains reserves in terms of specific local requirements. IPSAS 1.94 (f) IPSAS 1.95 (c)

Capital replacement reserve (CRR)

In order to finance the provision of infrastructure and other property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus to the CRR. The following provisions are set for the creation and utilization of the CRR:

- The cash funds that back up the CRR are invested until utilized.
- The CRR may only be utilized for purchasing items of property, plant and equipment, and may not be used for their maintenance.
- Whenever an asset is purchased out of the CRR, an amount equal to the cost price of the asset is transferred from the CRR, and the accumulated surplus is credited by a corresponding amount.

Self-insurance reserve

A general insurance reserve has been established to cover claims that may occur, subject to reinsurance, where deemed necessary. Premiums are charged to the respective services, taking into account claims history and replacement value of the insured assets. Reinsurance premiums paid to external reinsurers are regarded as an expense, and are shown as such in the statement of financial performance. The net surplus or deficit on the insurance operating account is transferred to or from the insurance reserve via the statement of changes in net assets. However, the operating account has not made a profit or loss for the past three years.

An actuarial valuation is obtained each year to assess the adequacy of the insurance reserve at year-end. The self-insurance reserve is only adjusted by transfers to or from accumulated surplus.

Housing development reserve

In accordance with the Group’s statutory obligation to provide social housing, a separate reserve has been created to serve as an operating account for the social housing project requirements.

Any surplus or deficit on operating account is recognised though surplus or deficit in the statement of financial performance, and consequently transferred to or from the housing development reserve via the statement of changes in net assets (transfer to or from accumulated surplus). However, the operating account has not made a profit or loss for the past three years. The reserve is fully asset-backed.

An actuarial valuation is obtained each year to assess the adequacy of the insurance reserve at year-end.

p) Changes in accounting policies and estimates

The Group recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical. IPSAS 3.27 IPSAS 3.30

IPSAS 3.33

Early application of IPSAS 40 Public Sector Combinations

The IPSASB issued IPSAS 40 in January 2017 to address a lack of guidance on how public sector entities should account for public sector combinations. The standard applies the principles in IFRS 3 to account for acquisitions and adopts a modified pooling of interests method to account for mergers/amalgamations. The IPSASB believes that this standard will promote consistency and comparability in how public sector combinations are reported. This standard is effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. The Group has opted to early adopt this standard in these consolidated financial statements.

The standard requires an entity that has previously recognized assets and liabilities that arose from public sector combinations whose acquisition dates and amalgamation dates preceded the application of this standard to not be adjusted on application of this standard. This standard should be applied prospectively to public sector combinations for which the amalgamation date or acquisition date is on or after 1 January 2019. Therefore, although the Group had public sector combinations that occurred in prior periods, it has only applied IPSAS 40 to the public sector combination that occurred during the current period. See note 44.

Actuarial gains and losses on defined benefit plans

The Group changed its accounting policy for the defined benefit plan to recognise all actuarial gains and losses in the period in which they occur in net assets/equity in accordance with IPSAS 39.122(c). The net cumulative unrecognized actuarial gains or losses recognised since 1 January 2010 as a separate item in net assets/equity of the Group is €323,000 as per 31 December 2017. The adoption of IPSAS 39 does not have an effect on the net cumulative unrecognized actuarial gains or losses as they will continue to be accounted for in net assets/equity. The actuarial gain of €164,990 of the current period is presented under IPSAS 39 as remeasurements. IPSAS 39.122 IPSAS 39.124

The Group recognizes the effects of changes in accounting estimates prospectively by including in surplus or deficit. IPSAS 3.41

q) Employee benefits

Retirement benefit plans

The Group provides retirement benefits for its employees and councillors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are recognised as an expense in the year in which they become payable. IPSAS 39.8, 39.53

The Group operates a defined benefit pension plan. Defined benefit plans are post-employment benefit plans other than defined contribution plans. The Group's defined benefit plan is unfunded, i.e., no plan assets are set aside for future post-employment benefits payments. IPSAS 39.8, IPSAS 39.59

The Group changed its accounting policy for the defined benefit plan to recognise all actuarial gains and losses in the period in which they occur in net assets/equity in accordance with IPSAS 39.122(c). The defined benefit obligations are actuarially valued annually by the projected unit credit method to determine deficit or surplus. A deficit is recognized as a net defined liability (which in the Group's case equals the defined benefit obligation (DBO)) and a surplus is recognized as a net defined benefit asset. Deficits identified are recovered through lump sum payments or increased future contributions on a proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

IPSAS 39 defines three components of defined benefit cost:

2.2 Summary of significant accounting policies continued

a) Service cost which represent the liability that arises from employees providing service during the period

b) Net interest, which is the interest expense/revenue on the net defined benefit liability (asset)

c) Remeasurements, which are other changes in the value of the of the defined benefit obligation, such as actuarial gains and losses or changes in the value of plan assets IPSAS 39.122

With regard to the recognition of actuarial gains and losses, IPSAS 39 removed the "corridor approach" provided by IPSAS 25. Previously, the Group recognised the net cumulative unrecognised actuarial gains and losses, which exceeded 10% of the defined benefit obligation at the closing date of the previous reporting period over the remaining working lives of the employees participating in the plan, in accordance with IPSAS 25.105 and .106. Following IPSAS 39.122(c), remeasurements should be recognized in net assets/equity in the period in which they occur. IPSAS 39.85

The defined benefit asset or liability comprises the present value of the defined benefit obligation using a discount rate that reflects the time value of money. This discount rate is consistent with the currency and estimated term of the defined benefit obligations.

Post-retirement pension funds

Pension contributions in respect of employees who were not members of a pension fund are recognized as an expense when incurred. Staff provident funds are maintained to accommodate personnel who, due to age, cannot join or be part of the various pension funds. Those funds are classified as a defined benefit plan and the same accounting policies apply as described before. The Group contributes monthly to the funds.

These contributions are charged to the operating account when employees have rendered the service entitling them to the contributions. Actuarial valuation of the liability is performed on an annual basis. The projected unit credit method has been used to value the obligations. The liability in respect of current pensioners is regarded as fully accrued, and, therefore, is not split between a past (or accrued) and future in-service element. The net defined benefit liability is recognized at the present value of the obligation. The amount includes the adjustments for the remeasurements due to actuarial gains and losses.

Remeasurements including actuarial gains and losses are fully accounted for in net assets/equity in the statement of financial position in the year in which they occur.

Medical aid: continued members

The Group provides post-retirement benefits by subsidizing the medical aid contributions of certain retired staff. According to the rules of the medical aid funds with which the Group is associated, a retired staff member is entitled to remain a continued member of such medical aid fund, and the Group will continue to subsidize medical contributions in accordance with the provisions of the employee's employment contract and the Group's decision on protected rights. Post-retirement medical contributions paid by the Group, depending on the employee's contract, could be 65%, 75% or a subsidy based on a sliding scale. In each case, the employee is responsible for the balance of post-retirement medical contributions. External appointments after March 2017 do not qualify for a post-retirement medical aid subsidy.

The post-retirement medical aid subsidy by the Group is classified as a defined benefit plan in accordance with IPSAS 39.8 and the accounting policies for such plans apply as described before. These contributions are charged to the statement of financial performance when employees have rendered the service entitling them to the contribution.

The liability in respect of current retired members is regarded as fully accrued, and is therefore not split between a past (or accrued) and future in-service element. The liability is recognized at the present value of the obligation, and adjusted for any remeasurements.

Remeasurements are fully accounted for in net assets/equity in the statement of financial position in the year in which they occur. The projected unit credit method has been used to value the obligation.

Short and long-term employee benefits

The cost of all short-term employee benefits, such as leave pay, is recognized during the period in which the employee renders the related service. The Group recognizes the expected cost of performance bonuses only when the Group has a present legal or constructive obligation to make such payment, and a reliable estimate can be made.

The Group provides long-term incentives to eligible employees, payable on completion of years of employment. The Group's liability is based on an actuarial valuation. The projected unit credit method has

been used to value the obligation. Remeasurements on the long-term incentives are fully accounted for in net assets/equity in the statement of financial position.

r) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise. IPSAS 4

s) Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. IPSAS 5.17

Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

Commentary

IPSAS 5 permits the expensing of all borrowing costs in the period in which they are incurred. For the purposes of these illustrative financial statements, the more complex alternative policy choice of capitalizing borrowing costs to qualifying assets has been applied. IPSAS 5.14

t) Related parties

The Group regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Group, or vice versa. Members of key management are regarded as related parties and comprise the councillors, the executive mayor, mayoral committee members, the city manager, deputy city manager and senior managers. IPSAS 20.4

u) Service concession arrangements

IPSAS 32.9

The Group analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Group recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Group also recognizes a corresponding liability, adjusted by a cash consideration paid or received. IPSAS 32.14

v) Budget information

The annual budget is prepared on the accrual basis; that is, all planned costs and income are presented in a single statement to determine the needs of the Group. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis or timing differences that would require reconciliation between the actual comparable amounts, and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts. Explanatory comments are provided in the notes to the annual financial statements; first, the reasons for overall growth or decline in the budget are stated, followed by details of overspending or underspending on line items. IPSAS 24

The annual budget figures included in the financial statements are for the controlling entity and they exclude the budgets of the controlled entities, because the budgets for the controlled entities are not made publicly available. These budget figures are those approved by the governing body both at the beginning of and during the year following a period of consultation with the public.

w) Significant judgments and sources of estimation uncertainty

The preparation of the Group's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. IPSAS 1.137

Judgments

In the process of applying the Group's accounting policies, management has made judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements. IPSAS 1.137

2.2 Summary of significant accounting policies continued

Assessment of control

IPSAS 38.9 (a) (i) IPSAS 28.12 (a)

An assessment of control was performed by the Group based on whether the Group has the practical ability to direct the relevant activities of Projects Company, Conferencing Company and Infrastructure Company. The relative size of other vote holders, potential voting rights held by them and rights from other binding arrangements were considered in making this judgment. The Group's ability to make strategic capital and operational business decisions for the entities without being outvoted was also assessed.

The Group is satisfied that they have a dominant voting interest to direct the relevant activities of the entities, as the minority shareholders would not be able to affect the Group's ability to direct the relevant activities of Projects Company, Conferencing Company and Infrastructure Company. Thus, the Group has determined that it has control over these entities.

Assessment of significant influence

IPSAS 38.9 (a) (i) IPSAS 38.12 (b), 14 (f)

The Group owns 17% of the voting rights in Renewable Power Company. The Group, despite owning less than 20% of the voting rights, participates in the procurement policy decisions and human resourcing decisions of Renewable Power Company. It is due to this participation in such major financial and operational policy decisions that the Group has determined that it has significant influence over Renewable Power Company.

Assessment of joint control

IPSAS 38.9 (a) (i), (ii) IPSAS 38.12 (b)

The Group has a 50% interest in Refuse-Removers. The binding arrangement entitles the Group and another joint operator a 50% share of the revenue received and the Group bears a 50% share of the expenses of Refuse-Removers. The binding arrangement between the joint operators specifies that at least 60% of voting rights are required to make decisions about the relevant activities of Refuse-Removers. This implies that the joint operators have joint control of Refuse-Removers because decisions about the relevant activities of the company cannot be made without both parties agreeing.

Operating lease commitments – the Group as lessor

The Group has entered into property leases for certain of its properties. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, (such as the lease term not constituting a substantial portion of the economic life of the commercial property) that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Key sources of estimation uncertainty

IPSAS 1.140

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

The useful lives and residual values of infrastructure assets relating to underground bulk water transmission are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Group
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

Impairment of non-financial assets – cash generating assets

The recoverable amounts of cash generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change, which may then impact management's estimations and require a material adjustment to the carrying value of tangible assets.

The Group reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Cash generating assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates of expected future cash flows are prepared for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

Impairment of non-financial assets – cash generating assets

The Group reviews and tests the carrying value of non-cash generating assets when events or changes in circumstances suggest that there may be a reduction in the future service potential that can reasonably be

expected to be derived from the asset. Where indicators of possible impairment are present, the Group undertakes impairment tests, which require the determination of the fair value of the asset and its recoverable service amount. The estimation of these inputs into the calculation relies on the use of estimates and assumptions. Any subsequent changes to the factors supporting these estimates and assumptions may have an impact on the reported carrying amount of the related asset.

Fair value estimation – financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, judgment is required in establishing fair values. Judgment includes the consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Inputs into fair value assumptions are disclosed in the notes where the respective fair value measurements are discussed.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 36.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Assumptions were used in determining the provision for rehabilitation of landfill sites. Landfill areas are rehabilitated over years and the assumption was made that the areas stay the same in size for a number of years.

Provision is made for the estimated cost to be incurred on the long-term environmental obligations, comprising expenditure on pollution control and closure over the estimated life of the landfill. The provision is based on the advice and judgment of qualified engineers.

The estimates are discounted at a pre-tax discount rate that reflect current market assessments of the time value of money.

The increase in the rehabilitation provision due to passage of time is recognized as finance cost in the statement of financial performance.

The cost of ongoing programs to prevent and control pollution and rehabilitate the environment is recognized as an expense when incurred.

Held-to-maturity investments and loans and receivables

The Group assesses its loans and receivables (including trade receivables) and its held-to-maturity investments at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the Group evaluates the indicators present in the market to determine if those indicators are indicative of impairment in its loans and receivables or held-to-maturity investments.

Where specific impairments have not been identified, the impairment for trade receivables, held-to-maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Index to notes to the consolidated financial statements

Commentary

IPSAS 1.137 requires an entity to disclose significant judgments applied in preparing the financial statements and significant estimates that involve a high degree of estimation uncertainty. The disclosure requirements go beyond those requirements that already exist in some other IPSAS such as IPSAS 19.

These disclosures represent a very important source of information in the financial statements because they highlight areas in the financial statements that are most prone to change in the foreseeable future. Therefore, any information given should be sufficiently detailed to help readers of the financial statements understand the impact of possible significant changes. However, care should be taken to limit these disclosures to the significant sources of estimation uncertainty in order to avoid cluttering the financial statements or inadvertently reducing the emphasis on the most significant matters.

3. Property taxes revenue

	2018	2017	
Actual	€000	€000	
Taxable land and buildings			IPSAS 23.106 (a)
Residential	3,892,385	3,721,485	
Commercial	1,315,259	1,257,511	
State	306,602	293,141	
Penalties	89,657	94,168	
	5,603,903	5,366,305	
Income forgone	(897,262)	(841,942)	
Total property taxes revenue	4,706,641	4,524,363	
Valuations			
Taxable land and buildings			
Residential	534,173,358	549,409,889	
Commercial	180,500,237	172,957,965	
Agriculture	8,777,516	8,784,443	
State	42,076,739	42,907,205	
Municipal	24,294,577	23,689,445	
	789,822,427	797,748,947	

Valuations on land and buildings are performed every four years. The last valuation came into effect on 1 January 2018. Interim valuations are processed on a quarterly basis to take into account changes in individual property values due to alterations.

A general rate of € 0.009678 per bulk square meter is applied to property valuations to determine property taxes. Rebates of 42% are granted to residential and state property owners.

Taxes are levied on an annual basis with the due date of payment being 31 May of each year. Interest at prime rate plus 1% per annum is levied on outstanding property taxes. A 2% (2017: 2%) collection charge is levied on outstanding balances two months after the final due date of 31 May.

Income forgone can be defined as income that the Group is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.

Commentary

The narrative description provided above is not explicitly required by IPSAS 23. However, this information may be required by certain jurisdictions. Moreover, disclosure of the basis used to determine the property tax revenue would provide a better understanding of property taxes to the users of the financial statements.

4. Public contributions and donations

	2018	2017	
	€000	€000	IPSAS 23.106 (a)
Bay Area Oceanarium	36,984	40,383	
Other	26,677	39,337	
Total transfers and sponsorships	63,661	79,720	

	2018	2017	
	€000	€000	
Reconciliation of public contributions and donations			
Balance unspent at beginning of year	67,684	147,404	
Current year receipts	57,908	-	
Conditions met - transferred to revenue	(63,661)	(79,720)	
Conditions to be met - remain liabilities (see note 37)	61,931	67,684	IPSAS 23.106 (c)

4. Public contributions and donations continued

Public contributions and donations represent those funds received for specific projects undertaken by the Group to enhance infrastructure. These funds were received on the basis of the project budgets submitted. Accordingly, the Group is contractually bound to spend these funds only in connection with the projects.

Furthermore, the contracts stipulate that the funds received for the project may only be applied to the costs incurred for the project, as and when the phases of the project are certified as complete by an independent engineer. The conditions remaining therefore represent phases of the projects that are yet to be certified as complete by an independent engineer. Furthermore, the contract stipulates that where funds are not spent as specified within the contract, they must be returned to the donor. IPSAS 23.106 (d)

5. Fines, penalties and levies

	2018	2017	
	€000	€000	IPSAS 23.106 (a)
Fuel levy	1,637,276	1,510,960	
Fines	144,394	166,476	
Total	1,781,670	1,677,436	

The Group is entitled by legislation to levy fines on those individuals or companies who fail to comply with the by-laws of the city.

6. Transfers from other governments – gifts and services-in-kind

	2018	2017	
	€000	€000	IPSAS 23.106 (a)
Unconditional grants			
Operational grant	970,474	836,662	
Other	-	73,775	
	970,474	910,437	
Conditional grants			IPSAS 23.106 (a)
National housing grant	-	249,772	
National infrastructure grant	136,113	129,925	
Provincial health grant	-	3,843	
Social services grant	30,049	32,824	
Basic services subsidy	1,919,890	705,761	
Transportation fund (international funding)	700,901	592,282	
Other organizational grants	408	11,625	
	2,787,361	1,726,032	
Total government grants and subsidies	3,757,835	2,636,469	

	2018	2017	
	€000	€000	
Government grants and subsidies - capital	1,626,991	1,385,536	IPSAS 23.106 (a)
Government grants and subsidies - operating	2,130,844	1,250,933	
Total government grants and subsidies	3,757,835	2,636,469	

	2018	2017
Reconciliation of conditional grants	€000	€000
Balance unspent at beginning of year	1,040,996	1,041,921
Current year receipts	4,320,660	2,635,544
Conditions met - transferred to revenue	(3,757,835)	(2,636,469)

Conditions to be met - liabilities (see note 37)	1,603,821	1,040,996	IPSAS 23.106 (c) & (e)

6. Transfers from other governments – gifts and services-in-kind continued

National housing grant

IPSAS 23.106 (d)

The grant was used for the construction of social housing. The unspent portion of the grant relates to projects in progress at year-end for which the funds are already committed.

Commentary

Disclosure of the reconciliation of the conditional grant as provided is not explicitly required. However, this reconciliation is presented to facilitate a better understanding of the extent to which the conditional grant was released to revenue.

National infrastructure grant

IPSAS 23.106 (d)

The grant was used to construct roads, labor-intensive sidewalks and sewerage infrastructure. The unspent portion of the grant relates to projects in progress at year-end for which the funds are already committed.

Provincial health grant

IPSAS 23.106 (d)

The Group renders health services on behalf of the Provincial Government and is refunded partially for expenditure incurred. The conditions attached to the grant have been met.

Social services grant

IPSAS 23.106 (d)

The Group provides subsidies to designated low-income citizens. The Grant represents a partial refund of the expenditure incurred. The conditions attached to this grant have been met.

Basic services grant

IPSAS 23.106 (d)

The Basic Services grant is used to fund infrastructure related connections to enable the Group to provide basic services to low-income households. The unspent portion is a result of delays in identifying appropriate contractors.

Transportation fund

IPSAS 23.106 (d)

The funding received from the transportation fund is allocated to the construction of a rail-loading bay dock in the harbor. As the funding was only received in December 2018, the procurement process has not been concluded.

Commentary

In accordance with IPSAS 23.17 and 23.18, a condition is a stipulation in a non-exchange agreement that obliges the receiver of non-exchange revenue to utilize the funds/assets received through the agreement in accordance with the requirements of the agreement and further stipulates that failure to do so would require the funds/assets to be returned. As such, where a non-exchange revenue agreement requires funding/an asset to be returned to the transferor in the case that the funding/asset was not used as stipulated in the contract it would constitute a condition in that agreement.

IPSAS 23.19 clarifies that a restriction in an agreement is a stipulation within an agreement that requires the receiver of funding for an asset to use the funding/asset in a specific manner or for a specific purpose. However, a restriction does not require the return of the funding/asset where it was not used as stipulated in the agreement. As such, the key differentiation between a restriction and a condition is the requirement to return the funding/asset in those instances where it is not used as stipulated in a contract. A condition requires return and a restriction does not require return of the funding/asset where it was not used as stipulated in a contract.

7. Rendering of services

	2018	2017	
	€000	€000	IPSAS 9.39 (b) (c)
Waste management (solid waste)	910,609	851,966	
Waste management (sewerage and sanitation)	1,002,897	903,205	
Other	330,116	281,993	
Total revenue from the rendering of services	2,243,622	2,037,164	

8. Sale of water and electricity

	2018	2017	
	€000	€000	IPSAS 9.39(b) (c)
Sale of electricity	8,052,945	6,807,930	
Sale of water	1,816,317	1,648,459	
Total revenue from the sale of goods	9,869,262	8,456,389	

Sale of electricity
Revenue was generated from the sale of 120,000 units (2017: 100,000) of electricity at an average price of €64.93 per unit (2017: €61.60).

The revenue figure includes adjustments of €2,161,345 (2017: €2,314,930) relating to estimated unused prepaid electricity as at 31 December 2018.

Sale of water
Revenue was generated from the sale of 81,049 units (2017: 147,844) of water at an average price of €22.41 per unit (2017: €11.15).

Commentary

IPSAS 9.39 (c) requires an entity to disclose the amount of revenue arising from exchanges of goods or services included in each significant category of revenue. To achieve this and to enhance the clarity of the financial statements, the classes of revenue and amounts included in each significant category of revenue were disaggregated to present the major components of each category of revenue.

Furthermore, the basis for determining the revenue from the sale of electricity was also disclosed to improve the clarity of the financial statements. This additional disclosure is a mandatory disclosure.

9. Rental revenue from facilities and equipment

	2018	2017	
	€000	€000	IPSAS 9.39 (b)
Straight-lined operating lease receipts	283,891	244,344	
Contingent rentals	5,845	5,972	
Total rentals	289,736	250,316	

10. Finance income - external investments

	2018	2017	
	€000	€000	IPSAS 9.39 (b)
Cash investments and fixed deposits	339,970	293,300	
Total finance income – external investments	339,970	293,300	

11. Finance income - outstanding receivables

	2018	2017	
	€000	€000	IPSAS 9.39 (b)
Service, water and electricity debtors	228,425	230,391	
Total finance income – outstanding receivables	228,425	230,391	

12. Other income

	2018	2017	
	€000	€000	IPSAS 9.39 (b)
Insurance recoveries	2,621	1,098	
Bulk infrastructure levies	56,426	54,926	
Infrastructure improvement fee	89,508	81,409	
Other income	149,686	94,278	
Services concession income	10,000	-	
Skills development levy	23,272	22,195	
Total other income	331,513	253,906	

13. Bulk purchases of water and electricity

	2018	2017	
	€000	€000	IPSAS 1.127 (c)
Electricity	5,385,001	4,326,842	
Water	320,262	293,323	
Total bulk purchases	5,705,263	4,620,165	

14. Employee costs

	2018	2017	
	€000	€000	IPSAS 1.127 (c)
Employee related costs - salaries and wages	4,341,494	3,990,865	
Employee related costs - contributions to pensions and medical aids	1,129,270	1,034,405	
Travel, motor car, accommodation, subsistence and other allowances	287,457	273,051	
Housing benefits and allowances	31,061	31,315	
Overtime payments	310,412	277,658	
Performance and other bonuses	-	1,880	
Contribution - long service awards	878,229	600,062	
Expenditure recharged to capital projects	(22,137)	(24,663)	
Employee costs	6,955,786	6,184,573	

15. Remuneration of councillors

	2018	2017	
	€000	€000	IPSAS 20.34
Executive mayor	1,050	971	
Deputy executive mayor	740	766	
Speaker	740	766	
Chief whip	695	719	
Mayoral committee members	7,350	6,497	
Sub-council chairpersons	15,206	15,117	
Councillors	67,924	54,274	
Councillors’ pension and medical aid contributions	4,067	9,511	
Councillors’ travel	144	237	
Total councillors’ remuneration	97,916	88,858	

15. Remuneration of councillors continued

In-kind benefits
The executive mayor, deputy executive mayor, speaker and executive committee members hold full-time appointments and are provided with offices and secretarial support at the cost of the Council.

The executive mayor is entitled to stay at the mayoral residence owned by the Council at no cost. The executive mayor has use of the Council-owned vehicle for official duties.

16. Depreciation and amortization expense

	2018	2017	
	€000	€000	IPSAS 1.127(c)
Property, plant and equipment	1,378,163	1,270,877	IPSAS 17.90 (a)
Intangible assets	15,018	10,207	IPSAS 31.117 (d)
Investment property carried at cost	1,653	2,598	IPSAS 1.127 (c)
Total depreciation and amortization	1,394,834	1,283,682	

17. Repairs and maintenance

	2018	2017	IPSAS 1.127 (c)
	€000	€000	
Property	1,307,598	1,209,336	
Investment property – earning rentals	38,223	46,394	IPSAS 16.86 (f) (ii)
Equipment	679,871	568,654	
Vehicles	188,976	190,643	
Other	47,643	57,016	
Total repairs and maintenance	2,262,311	2,072,023	

Other includes repairs and maintenance expenses relating to office equipment.

18. Contracted services

	2018	2017	IPSAS 1.127 (c)
	€000	€000	
Actuarial valuations	2,398	3,398	
Investment valuations	4,022	3,896	
Property valuations	1,349	2,647	
Total contracted services	7,769	9,941	

Actuarial valuations — IPSAS 1.127 (c)
ABC Limited has been contracted for a period of three years to provide actuarial valuations of the post-retirement benefit liabilities on an annual basis. The total value of the contract is €7.194 million of which €2.398 million (2017: €4.796 million) relates to future periods.

Property valuations — IPSAS 1.127 (c)
XYZ Limited has been contracted for a period of three years to provide property valuations on an annual basis. The total value of the contract is €9.794 million of which €3.876 million (2017: €6,898 million) relates to future periods. These valuations are undertaken for the purpose of updating the valuation register of the municipality. Property taxes are based on the values of property included in the valuation register.

19. Grants and subsidies

	2018	2017	
	€000	€000	IPSAS 1.127 (c)
Community development	9,326	-	
Education initiatives and programs	67,157	76,483	
Social development	3,964	5,365	
Community trust	7,667	6,191	
Sporting bodies	15,388	5,354	
Total grants and subsidies	103,502	93,393	

20. General expenses

The following are included in general expenses:

	2018	2017	
	€000	€000	IPSAS 1.127 (c)
Advertising	31,821	28,515	
Admin fees	25,557	26,217	
Audit fees	17,655	19,443	
Conferences and delegations	30,629	25,508	
Consulting fees	150,960	145,448	
Consumables	290,523	298,912	IPSAS 12.47 (d)
Electricity	93,874	71,025	
Fuel and oil	191,191	144,049	
Insurance	26,659	26,611	
Legal expenses	35,260	36,294	
Licenses and permits	70,303	70,869	
Chemicals	171,325	167,339	
Water purification cost	400,348	363,415	
Postage	26,599	25,993	
Printing and stationery	62,049	57,496	
Hire charges	147,652	119,064	IPSAS 13.44 (c)
Rental	57,806	64,085	IPSAS 13.44 (c)
Security costs	316,400	276,722	
Sewage treatment costs	647,450	535,209	
Skills development levies	48,398	43,499	
Inventory scrapping	5,402	1,243	
Telecommunication	115,442	115,859	
Training	70,109	53,728	
Other	41,748	21,762	
Total general expenses	3,075,160	2,738,305	

21. Finance costs

	2018	2017	IPSAS 1.127 (c)
	€000	€000	
Borrowings (amortized cost)	642,664	663,565	
Finance leases (amortized cost)	4,862	21,718	
Unwinding of discount	35,350	33,604	
Bank overdrafts	290	283	
Total finance costs	683,166	719,170	

Borrowing cost capitalized — IPSAS 5.40 (b)

The total amount of borrowing costs capitalized during the period was €42 million (2017: €63 million).

22. Gain on sale of assets

	2018	2017	
	€000	€000	
Property, plant and equipment	41,893	16,641	IPSAS 1.127 (c)
Other assets	504	268	IPSAS 1.127 (c)
Total gain on sale of assets	42,397	16,909	

23. Unrealized gain on fair value of investments

	2018	2017	
	€000	€000	
Investments at fair value	1,543	6,866	IPSAS 1.127 (c)
Total unrealized gain	1,543	6,866	

24. Impairment loss

	2018	2017	IPSAS 26.115 IPSAS 26.120
	€000	€000	
Property, plant and equipment	27,392	25,958	
Intangible assets	725	-	
Allowance for impairment loss on receivables from exchange transactions	820,121	773,536	
Total impairment loss	848,238	799,494	

Property, plant and equipment includes: land and buildings, infrastructure assets, leased vehicles, office equipment and community assets.

Recoverable amount

IPSAS 26.122,
IPSAS 26.123

Value in use

Management has used the following key assumptions in preparing the cash flow forecast:

	2018	2017
	%	%
Inflation	6.0	6.0
Growth rate	7.0	7.0
Discount rate	5.6	5.6

The inflation assumption made was based on forecasted inflation figures prepared by the Department of Finance and the Central Reserve Bank. The growth rate was based on the long-term average growth rate for services and the public sector in which the Group operates.

For cash generating assets, the projected cash flow is for a period of three years and was based on the most reliable information available to management at 31 December 2018.

The Group holds both cash generating and non cash generating assets. The impairments recognized only relate to the cash generating assets. No impairments were identified on the non cash generating assets.

Fair value less cost to sell

The fair value less cost to sell was based on the trade-in/resale value of the assets in the open market. For the vehicles, land and buildings that were impaired, an active market exists for the resale of these assets. The fair value less cost to sell was based on the values attainable from the resale of the assets in the open market. These values take into consideration the age and condition of the assets and is supported by past experience in the resale of vehicles, land and buildings in the open market.

Due to their nature, there is no active market for infrastructure assets, community assets, plant and equipment. As such, the recoverable amount of these assets is their value in use.

Events that lead to the recognition of impairment losses

As part of the annual assessment of assets, it was noted that the condition and performance of certain assets deteriorated to such an extent that they required greater than anticipated maintenance.

25. Taxation

	2018	2017	
	€000	€000	IAS 12.79
Current income tax:			
Current income tax charge	5,481	7,342	IAS 12.80 (a)
Deferred tax:			
Relating to origination and reversal of temporary differences	(1,377)	(887)	IAS 12.80 (c)
Income tax expense reported in the statement of financial performance	4,104	6,455	

The reconciliations between tax expense and the product of accounting profit multiplied by the Group's tax rate for the years ended 31 December 2018 and 2017 are as follows:

IAS 12.81 (c) (i)

	2018	2017	
	€000	€000	
Accounting surplus before income tax	2,521,841	1,832,538	IAS 12.8 1(c)
Income tax at a rate of 28%	706,115	513,111	
Government grants exempt from tax	(1,052,194)	(738,219)	
Fines, penalties and levies	(494,764)	(463,227)	
Non-deductible expenses:			
Depreciation and amortization	390,554	359,431	
Impairment losses	237,304	223,858	
Legal expenses	9,873	10,162	
Grants and subsidies paid	28,981	26,150	
Skills development levy	13,551	12,180	
Hire charges	41,343	33,338	
Other non-deductible expenses	123,341	29,671	
At the effective tax rate of 0.2% (2017: 0.4%)	4,104	6,455	

Deferred tax relates to the following:

	Statement of financial position		Statement of financial performance		IAS 12.81 (g)
	2018	2017	2018	2017	
	€000	€000	€000	€000	
Accelerated depreciation for tax purposes	(4,165)	(5,012)	(826)	(532)	
Revaluation of investments to fair value	(1,041)	(1,253)	(207)	(133)	
Post-employment benefits	(1,735)	(2,088)	(344)	(222)	
Deferred tax (income)			(1,377)	(887)	
Deferred tax (liabilities)	(6,941)	(8,353)			

At 31 December 2018, there was no recognized deferred tax liability (2017: €Nil) for taxes that would be payable on the unremitted earnings of some of the Group's controlled entities. The Group has determined that undistributed surpluses of its controlled entities will not be distributed in the foreseeable future. IAS 12.81(f)

The temporary differences associated with investments in controlled entities, for which a deferred tax liability has not been recognized in the consolidated financial statements, aggregate to €1.265 million (2017: €1.083 million).

Commentary

The tax effects illustrated in the tax expense reconciliation above can be reconciled using a tax rate of 28% and applying it to the amounts in the following notes:

- Government grants exempt from income tax as per note 6
- Fines, penalties and levies per note 5 (it should be noted that the full amount is not exempt from income tax)
- Depreciation and amortization as per note 16
- Impairment losses as per note 24
- Legal expenses as per note 20
- Grants and subsidies paid as per note 19
- Skills' development levy as per note 20
- Hire charges as per note 20
- Other non-deductible expenses, being a portion of other expenses in note 20

Although municipalities are likely to be tax exempt in many jurisdictions, the income tax considerations are included for illustrative purposes.

26. Cash and cash equivalents

	2018	2017
	€000	€000
Bank	125,693	148,609
Cash on-hand and in transit	35,177	29,500
Short-term deposits	3,320,663	3,126,020
Total cash and cash equivalents	3,481,533	3,304,129

Cash at banks earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods, depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rate.

The Group's bank balances amounting to €125.693 million include an amount of €43 million, which must be used on infrastructure projects.

IPSAS 2.59

27. Receivables from exchange transactions

IPSAS 1.93

	2018	2017
Current receivables	€000	€000
Service, water and electricity debtors	6,016,348	5,403,663
Other exchange debtors	358,585	277,136
Less: impairment allowance	(3,462,430)	(3,129,770)
Total current receivables	2,912,503	2,551,029
Non-current receivables		
Sporting bodies	1,194	1,363
Public organizations	200,373	230,416
Less: impairment allowance	(82,481)	(97,060)
	119,086	134,719
Current portion transferred to current receivables	(19,758)	(19,193)
Total non-current receivables	99,328	115,526
Total receivables	3,011,831	2,666,555

As at 31 December 2018, trade receivables of €3.462 billion (2017: €3.129 billion) were impaired and fully provided for. IPSAS 30.44 (b)

27. Receivables from exchange transactions continued

Reconciliation of allowance for impairment of receivables

	Current receivable	Non-current receivables	Total	
	€000	€000	€000	
At 1 January 2017	2,629,365	118,401	2,747,766	IPSAS 30.20
Charge for the year	773,367	169	773,536	
Utilized	(272,692)	(21,510)	(294,202)	
Unused amounts reversed	(3,562)	-	(3,562)	
Discount rate adjustment	3,292	-	3,292	
At 31 December 2017	3,129,770	97,060	3,226,830	
Charge for the year	820,121	-	820,121	
Utilized	(487,421)	(14,579)	(502,000)	
Unused amounts reversed	(40)	-	(40)	
At 31 December 2018	3,462,430	82,481	3,544,911	

As at 31 December 2018 , the age analysis of current exchange receivables is as follows: IPSAS 30.44 (a)

At 31 December 2018			Past due but not impaired		
	Total	Neither past due nor impaired	<30days	30-60 days	>60 days
	€000	€000	€000	€000	€000
Service, water and electricity debtors	2,612,579	1,404,151	89,870	154,843	963,715
Other debtors (exchange transactions)	299,924	238,147	26,488	23,702	11,587
Total	2,912,503	1,642,298	116,358	178,545	975,302

At 31 December 2017 IPSAS 30.44 (a)

			Past due but not impaired		
	Total	Neither past due nor impaired	<30days	30-60 days	>61 days
	€000	€000	€000	€000	€000
Service, water and electricity debtors	2,344,368	912,806	357,266	156,755	917,541
Other debtors (exchange transactions)	206,661	15,020	194,931	14,605	(17,895)
Total	2,551,029	927,826	552,197	171,360	899,646

28. Receivables from non-exchange transactions

IPSAS 1.93

Current receivables	2018	2017
	€000	€000
Property tax debtors	1,928,182	1,939,105
Other debtors (non-exchange transactions)	217,607	167,375
Less: impairment allowance	(766,963)	(747,079)
Total current receivables	1,378,826	1,359,401

29. Inventories

	2018	2017	
	€000	€000	IPSAS 1.94 (c)
Consumable stores	207,628	197,484	IPSAS 12.47 (b)
Medical supplies	310	492	IPSAS 12.47 (b)
Spare parts and meters	22,634	14,351	IPSAS 12.47 (b)
Water for distribution	15,070	18,293	IPSAS 12.47 (b)
Other goods held for resale	8,743	3,549	IPSAS12.47 (b)
Catering	-	2,465	IPSAS 12.47 (b)
Total inventories at the lower of cost and net realizable value	254,385	236,634	IPSAS 12.47 (b)

At 31 December 2018, €52.300 million (2017: €42.300 million) of total inventory was carried at fair value less cost to sell. IPSAS 12.47(c)

The amount of write-down of inventories recognized as an expense is €5.400 billion (2017: €1.200 billion), which is recognized in general expenses. IPSAS 12.47(e)

No inventory items were pledged as security during the current or prior financial year. IPSAS 12.47(h)

30. Investments

The reconciliation and fair value of current investments is as follows: IPSAS 30.11(a)-(b)

	Carrying amount	Fair value
	€000	€000
Financial instruments at fair value through surplus/deficit Publicly traded government bonds		
Opening balance at 1 January 2017	28,352	28,352
Additional investments made	1,467,399	1,467,399
Fair value increase	6,866	6,866
At 31 December 2017	1,502,617	1,502,617
Additional investments made	341,580	341,580
Fair value increase	1,080	1,080
At 31 December 2018	1,845,277	1,845,277
Held-to-maturity financial instruments		
Fixed deposits		
Opening balance at 1 January 2017	114,795	114,795
Additional investments made	486,321	486,321
Interest capitalized	42,863	42,863
At 31 December 2017	643,979	643,979
Additional investments made	289,249	289,249
Interest capitalized	104,845	104,845
At 31 December 2018	1,038,073	1,038,073

30. Investments continued

The reconciliation and fair value of non-current investments is as follows:

IPSAS 30.11(a)-(b)

	Carrying amount	Fair value
	€000	€000
Financial instruments at fair value through surplus/deficit		
Publicly traded government bonds		
Opening balance at 1 January 2017	-	-
Additional investments made	-	-
Fair value increase	-	-
At 31 December 2017	-	-
Additional investments made	34,747	34,747
Fair value increase	463	463
At 31 December 2018	35,210	35,210
Held-to-maturity financial instruments		
Fixed deposits		
Opening balance at 1 January 2017	-	-
Additional investments made	-	-
Interest capitalized	-	-
At 31 December 2017	-	-
Additional investments made	10,396	10,396
Interest capitalized	2,052	2,052
At 31 December 2018	12,448	12,448

	2018	2017
	€000	€000
Total current investments	2,883,350	2,146596
Total non-current investments	47,658	-
Total investments	2,931,008	2,146596

31. Property, plant and equipment

Cost	Land and Buildings €000	Infrastructure €000	Machinery and equipment €000	Leased assets €000	Other €000	Service concession assets €000	Housing rental stock €000	Total €000	
At 1 January 2017	3,479,202	15,255,740	5,596,164	269,325	4,202,040	-	1,149,123	29,951,594	
Additions	125,292	1,832,881	216,014	-	699,216	-	11,621	2,885,024	IPSAS 17.88 (e) (i)
Disposals	(395)	(1)	-	-	(43,627)	-	(2,602)	(46,625)	IPSAS 17.88 (e) (ii)
Transfers/adjustments	202,606	(37,920)	45,817	(34,955)	(198,856)	-	7,732	(15,576)	
At 31 December 2017	3,806,705	17,050,700	5,857,995	234,370	4,658,773	-	1,165,874	32,774,417	IPSAS 17.88 (d)
Additions									
Acquisitions through public	73,596	2,645,556	232,914	-	735,892	350,000	152,690	4,190,648	IPSAS 17.88 (e) (i)
sector combinations	381,520	-	-	-	120,380	-	-	501,900	IPSAS 17.88 (e) (iii)
Disposals	(213)	-	-	-	(181,834)	-	(2,874)	(184,921)	IPSAS 17.88 (e) (ii)
Transfer/adjustments	(1,402,554)	38,404	1,114,437	(234,370)	(287,098)	-	227,101	(544,080)	
At 31 December 2018	2,859,054	19,734,660	7,205,346	-	5,046,113	350,000	1,542,791	36,737,964	IPSAS 17.88 (d)
Depreciation and impairment									
At 1 January 2017	(1,655,793)	(4,996,423)	(553,294)	(155,590)	(1,805,579)	-	(527,666)	(9,694,345)	
Depreciation	(91,825)	(475,869)	(232,331)	(13,188)	(431,002)	-	(26,662)	(1,270,877)	IPSAS 17.88 (e) (vii)
Impairment	(9,866)	-	-	-	(16,092)	-	-	(25,958)	IPSAS 17.88 (e) (iv)
At 31 December 2017	(1,757,484)	(5,472,292)	(785,625)	(168,778)	(2,252,673)	-	(554,328)	(10,991,180)	IPSAS 17.88 (d)
Depreciation	(81,381)	(590,791)	(220,508)	-	(445,276)	(12,000)	(28,207)	(1,378,163)	IPSAS 17.88 (e) (vii)
Disposals	165	-	-	-	68,342	-	2,147	70,654	IPSAS 17.88 (e) (ii)
Impairment	(20,327)	(234)	-	-	(6,831)	-	-	(27,392)	
Transfer/adjustment	672,512	(242,404)	(523,168)	168,778	(19,964)	-	(55,229)	525	
At 31 December 2018	(1,186,515)	(6,305,721)	(1,529,301)	-	(2,656,402)	(12,000)	(635,617)	(12,325,556)	IPSAS 17.88 (d)
Net book values									
At 31 December 2018	1,672,539	13,428,939	5,676,045	-	2,389,711	338,000	907,174	24,412,408	
At 31 December 2017	2,049,221	11,578,408	5,072,370	65,592	2,406,100	-	611,546	21,783,237	

The transfer and adjustment column relates to reclassifications between the different classes of assets and also to other categories of assets including inventory and intangible assets.

The Group is required to measure the residual value of all items of property, plant and equipment. Management does not expect a residual value for these assets, because they will be utilized for their entire economic lives and do not have a significant scrap value. During the current financial year, the Group reviewed the estimated useful lives and residual values of property, plant and equipment, where appropriate. Fully depreciated assets at an original cost of €1.300 million (2017: €1.940 million) are still in use. These will be donated to non-profit organizations in the near future.

32. Intangible assets - software

Cost	€000	
		IPSAS 31.117 (e)
At 1 January 2017	318,584	
Additions	8,393	IPSAS 31.117 (e) (i)
At 31 December 2017	326,977	
Additions – internal development	51,050	IPSAS 31.117 (e) (i)
Acquisitions through public sector combinations	20,241	
At 31 December 2018	398,268	
Amortization and impairment		
At 1 January 2017	(271,886)	
Amortization	(10,207)	IPSAS 31.117 (e) (vi)
At 31 December 2017	(282,093)	
Amortization	(15,018)	
Impairment loss	(725)	
At 31 December 2018	(297,836)	
Net book values		
At 31 December 2018	100,432	
At 31 December 2017	44,884	

The Group has incurred research and development costs during the period, to advance its renewable energy program. These costs are not eligible for capitalization and have been subsequently expensed. The expense amounted to €9.800 million (2017: €8.200 million). IPSAS 31.125

33. Investment property

	2018	2017	
	€000	€000	
Opening balance at 1 January	84,999	87,060	
Additions	109,132	537	IPSAS 16.87 (a)
Depreciation	(1,653)	(2,598)	
Closing balance at 31 December	192,478	84,999	
Rental revenue from investment properties	131,040	122,781	IPSAS 16.86 (f) (i)
Direct operating expenses (including repair and maintenance) arising from investment property that generated rental revenue during the period	(56,421)	(77,905)	IPSAS 16.86 (f) (ii)
Direct operating expenses (including repair and maintenance) arising from investment property that did not generate rental revenue during the period	(22,597)	(18,427)	IPSAS 16.86 (f) (iii)

Commentary

The income reflected as 'rental revenue from investment properties' above is included as part of rental revenue from facilities and equipment in note 9.

The Group has no restrictions on the realization of its investment property and no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance and enhancements. IPSAS 16.86 (g) (h)

The fair value of investment properties carried at cost amounted to €195.287 million (2017: €88.296 million). The fair values were determined based on valuations performed by Chartered Surveyors & Co. an accredited independent valuer, as at 31 December 2018 and 2017, respectively. Chartered Surveyors & Co. IPSAS 16.86 (a), (d), (e) is an industry specialist in valuing these types of investment properties. The fair values of the properties have been determined based on observable transactions in the market.

34. Trade and other payables from exchange transactions

	2018	2017
	€000	€000
Trade payables	2,599,475	2,170,658
Payments received in advance	800,480	785,846
Employee advances	9,746	6,489
Third-party payments	298,908	285,034
Other payables	90,885	108,151
Total trade and other payables	3,799,494	3,356,178

Trade payables are non-interest bearing and are normally settled on 60-day terms. Other payables are non-interest bearing and have an average term of six months. Interest payable is normally settled quarterly throughout the financial year. For explanations on the Group's credit risk management processes, refer to note 38.

35. Refundable deposits from customers

	2018	2017
	€000	€000
Consumer deposits	272,795	233,248
Other deposits	18,646	11,447
Total deposits	291,441	244,695

Guarantees held in lieu of electricity and water deposits were €38.60 million (2017: €29.26 million). Deposits are released when the owner/occupant of a property terminates the contract with the Group to supply water and electricity to the property, or when certain contractual services are delivered.

36. Current provisions

	Environmental rehabilitation				
	€000				
Balance at the beginning of the year	327,645				IPSAS 19.97 (a)
Additional provisions raised	236,187				IPSAS 19.97 (b)
Provision utilized	(388,314)				IPSAS 19.97 (c)
Change in provision due to change in discount factor and time value of money	(9,611)				IPSAS 19.97 (e)
Transferred from non-current provisions	219,392				
Balance as at 31 December 2018	385,299				IPSAS 19.97 (a)

Environmental rehabilitation

The environmental rehabilitation provision represents the short-term portion of the related long-term provisions. Refer to note 39 (Non-current provision) for a description of the assumptions and estimates applied.

37. Grant liability

	2018	2017
	€000	€000
National government	1,378,915	662,069
International funders	224,906	378,927
Public contributions and donations	61,931	67,684
Total grant liability	1,665,752	1,108,680

Refer to notes 2 and 6 for further details regarding these government grants.

38. Financial instruments – financial risk management

Exposure to currency, commodity, interest rate, liquidity and credit risk arises in the normal course of the Group's operations. This note presents information about the Group's exposure to each of the above risks, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

Fair values

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments.

	Carrying amount	Fair value	IPSAS 30.29
Financial assets	€000	€000	IPSAS 30.30
2018			
Financial instruments at fair value through surplus/deficit	1,923,321	1,923,321	
Held-to-maturity financial instruments	1,071,521	1,071,521	
Receivables from exchange transactions	3,011,831	3,011,831	
Cash and cash equivalents	3,481,533	3,481,533	
	9,488,206	9,488,206	
2017			
Financial instruments at fair value through surplus/deficit	1,502,617	1,502,617	
Held-to-maturity financial instruments	643,979	643,979	
Receivables from exchange transactions	2,666,555	2,666,555	
Cash and cash equivalents	3,304,129	3,304,129	
	8,117,280	8,117,280	

	Carrying amount	Fair value	IPSAS 30.30
Financial liabilities	€000	€000	
2018			
Borrowings	1,429,827	1,429,827	
Trade payables from exchange transactions	3,799,494	3,799,494	
	5,229,321	5,229,321	
2017			
Borrowings	1,481,135	1,481,135	
Finance lease liability	2,134	2,134	
Trade payables from exchange transactions	3,356,178	3,356,178	
	4,839,447	4,839,447	

38. Financial instruments – financial risk management continued

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. IPSAS 30.31

The following methods and assumptions were used to estimate the fair values: IPSAS 30.31

- Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments IPSAS 30.31
- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based agrees to defer IFRS 17 to 2022on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the incurred losses of these receivables and market related interest rates. As at 31 December 2018 and 2017 respectively, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values IPSAS 30.31
- Fair value of quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities IPSAS 30.31
- Fair value of financial assets is derived from quoted market prices in active markets, if available IPSAS 30.31
- Fair value of unquoted available-for-sale financial assets is estimated using appropriate valuation techniques IPSAS 30.31

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique: IPSAS 30.32

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities IPSAS 30.32(a)

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as price) or indirectly (i.e., derived from prices) IPSAS 30.32(b)

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data IPSAS 30.32(c)

As at 31 December 2018, the Group held the following financial instruments measured at fair value:

Assets measured at fair value

	31 December 2018	Level 1	Level 2	Level 3	IPSAS 30.33
	€000	€000	€000	€000	
Investments	1,923,321	1,644,250	279,071	-	
	1,923,321	1,644,250	279,071	-	

During the reporting period ending 31 December 2018, there were no transfers between level 1 and level 2 fair value measurements. IPSAS 30.33(b)

As at 31 December 2017, the Group held the following financial instruments measured at fair value:

Assets measured at fair value

	31 December 2017	Level 1	Level 2	Level 3
	€000	€000	€000	€000
Investments	1,502,617	1,238,557	264,060	-
	1,502,617	1,238,557	264,060	-

During the reporting period ending 31 December 2017, there were no transfers between level 1 and level 2 fair value measurements. IPSAS 30.33(b)

38. Financial instruments – financial risk management continued

Credit risk

Credit risk is the risk of financial loss to the Group if customers or counterparties to financial instruments fail to meet their contractual obligations, and it arises principally from the Group's investments, loans, receivables, and cash and cash equivalents. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at 31 December was:

	2018	2017
	€000	€000
Investments	1,071,521	643,979
Trade receivables and other receivables	3,011,831	2,666,555
Cash and cash equivalents	3,481,533	3,304,129
Maximum exposure to credit risk	7,564,885	6,614,663

Credit quality

Credit quality is assessed risk of default attached to counterparties to which the Group extends credit and also those parties with whom the Group invests. As such, the credit quality assessed extends to the customers, investments and banks of the Group.

For financial statement purposes, the investments and balances with banks are limited to the investments, loans receivable and cash and cash equivalents line items in the statement of financial position. The Group determines credit quality of the investments and banks using information obtained from external rating agencies. In accordance with its financial risk management policy, the Group does not invest in instruments with a credit rating below BB and does not advance loans to counterparties with a credit rating below BB. Furthermore, the Group does not make deposits with banks with a credit rating below Aa3. Accordingly, the credit rating attached to the investments, loans receivable and cash and cash equivalents line items are, as follows:

	2018	2017
	Rating	Rating
Investments	Aa3	Aa2
Loans receivable	BB	BB
Cash and cash equivalents	AA-	AA+

The customer base of the Group is diverse and consists of individuals, companies, non-profit organizations and government entities. Credit ratings, from external rating agencies, are not readily available for all customers. Also, it is not financially viable to obtain external credit ratings for all customers due to the nature of the customer base. Furthermore, the Group, as a local government authority, is mandated by the Constitution of Euroland to provide basic services to all its constituents irrespective of their financial standing. As such, the Group is required, by legislation, to extend services and extended payment terms to all customers irrespective of their financial standing. For the purpose of determining the credit quality of customers, the Group applies its past experience with customers in determining the risk of default posed by customers. In line with the methodology applied, customers are classified into the following credit quality groups:

- High - Those customers who have no history of defaulting on payments to the Group and only includes customers who settle their accounts in full and within the prescribed minimum period
- Medium - Those customers with a history of late payments only. These customers usually arrange ahead of time with the Group in settling balances in arrears and when payments are made, the outstanding amounts (including interest) are settled in full
- Low - Those customers with a significant history of defaults. The balances of these customers are rarely settled in full. The recovery of outstanding balances from these customers is problematic

38. Financial instruments – financial risk management continued

The credit quality of the balance of receivables and other receivables is made up, as follows:

	2018	2017
	€000	€000
High	4,160,687	3,638,065
Medium	2,269,465	1,984,399
Low	1,134,733	992,199
Total instruments at amortized cost exposed to credit risk	7,564,885	6,614,663

Investments

The Group limits its exposure to credit risk by investing with only reputable financial institutions that have a sound credit rating (rated BB and above), which are within the specific guidelines set in accordance with the Council's approved investment policy. Consequently, the Group does not consider there to be any significant exposure to credit risk.

Receivables

Receivables are amounts owed by consumers, and are presented net of impairment losses. The Group has a credit risk policy in place, and the exposure to credit risk is monitored on an ongoing basis. The Group is compelled, by its constitutional mandate, to provide all of its residents with basic minimum services, without recourse to an assessment of creditworthiness. There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The Group's strategy for managing its risk includes encouraging residents to install water management devices that control water flow to households, as well as prepaid electricity meters. In certain instances, a deposit is required for new service connections, serving as a guarantee.

The Group's maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial performance. The Group has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographic area. The Group establishes an allowance for impairment that represents its estimate of anticipated losses in respect of receivables.

The outstanding amounts of the 10 largest debtors represent 0.8% (2017: 1.2%) of the total outstanding balance. The average credit period on services rendered is 30 days from date of invoice. Interest is raised at the three-month government bond rate plus 1% on any unpaid accounts after the due date. The Group provided fully for all receivables outstanding over 365 days where there was no evidence of expected recovery. Receivables up to 365 days are provided for based on estimated irrecoverable amounts, determined by reference to past default experience.

Cash and cash equivalents

The Group limits its exposure to credit risk by investing cash and cash equivalents with only reputable financial institutions that have a sound credit rating, and within specific guidelines set in accordance with Council's approved investment policy. Consequently, the Group does not consider there to be any significant exposure to credit risk.

Liquidity risk

Liquidity risk is the risk of the Group not being able to meet its obligations as they fall due. The Group's approach to managing liquidity risk is to ensure that sufficient liquidity is available to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that it has sufficient cash on demand to meet expected operating expenses through the use of cash flow forecasts. On average, 94.93% (2017: 93.88%) of receivables are settled within 30 days after the due date, and payables are settled within 30 days of invoice.

38. Financial instruments – financial risk management continued

The following are contractual liabilities of which interest is included in borrowings:

2018	On demand €000	> 3 months €000	3 – 12 months €000	1 – 5 years €000	> 5years €000	Total €000
Liabilities						
Borrowings	-	-	286,962	-	1,142,865	1,429,827
Payables	2,127,717	531,929	1,139,848	-	-	3,799,494
Total liabilities	2,127,717	531,929	1,426,810	-	1,142,865	5,229,321

2017	On demand €000	> 3 months €000	3 – 12 months €000	1 – 5 years €000	> 5years €000	Total €000
Liabilities						
Borrowings	-	-	126,354	-	1,354,781	1,481,135
Finance lease obligation	-	534	1,600	-		2,134
Payables	1,678,089	1,006,853	671,236	-	-	3,356,178
Total liabilities	1,678,089	1,007,387	799,190	-	1,354,781	4,839,447

Capital management

The primary objective of managing the Group's capital is to ensure that there is sufficient cash available to support the Group's funding requirements, including capital expenditure, to ensure that the Group remains financially sound. The Group monitors capital using a gearing ratio, which is net debt, divided by total capital, plus net debt. In a capital-intensive industry, a gearing ratio of 54.5% or less can be considered reasonable. Included in net debt are interest-bearing loans and borrowings, payables, less investments.

Currency risk

The Group is exposed to foreign currency risk through the importation of goods and services, either directly or indirectly, through the award of contracts to local importers. The Group manages any material direct exposure to foreign currency risk by entering into forward exchange contracts. The Group manages its indirect exposure by requiring the local importer to take out a forward exchange contract at the time of procurement, in order to predetermine the euro value of the contracted goods or services. The Group was not a direct party to any outstanding forward exchange contracts at the reporting date. The movement in the currency was not material to the Group's procurement.

Market risk

Market risk is the risk of changes in market prices, such as foreign exchange rates and interest rates, affecting the Group's income or the value of its financial instrument holdings. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on the risk. IPSAS 30.46 (a), (b)
The weighted average interest rates and maturity profile on financial instruments as at 31 December 2018 are, as follows:

Financial assets	Weighted average interest rate %	1 year or less €000	1 – 5 years €000	>5years €000	Total €000
Investments	6.70	2,883,350	111,492	-	2,994,842
Cash and cash equivalents	6.06	3,481,533	-	-	3,481,533
Total financial assets		6,364,883	111,492	-	6,476,375
Financial liabilities					
Borrowings	11.53	286,962	914,292	228,573	1,429,827
Total liabilities		286,962	914,292	228,573	1,429,827

38. Financial instruments – financial risk management continued

Interest rate sensitivity analysis

Financial assets

If the weighted average interest rate at 31 December 2018 had been 100 basis points higher or lower the interest income and interest expense would have been affected, as follows:

	Increase (+) / decrease (-) in basis points	Effect on surplus/deficit before tax	
		€000	IPSAS 30.41(a) IPSAS 30.47(a)
2018			
Financial assets			
Investments	+100	30,942	
	-100	(30,942)	
Cash and cash equivalents	+100	34,198	
	-100	(34,198)	
Financial liabilities			
Borrowings	+100	(5,579)	
	-100	5,579	
2017			
Financial assets			
Investments	+100	26,574	
	-100	(26,574)	
Cash and cash equivalents	+100	29,371	
	-100	(29,371)	
Financial liabilities			
Borrowings	+100	(5,761)	
	-100	5,761	

39. Non-current provisions

	Environmental rehabilitation	Total	
	€000	€000	
Balance at the beginning of the year	1,844,029	1,844,029	IPSAS 19.97(a)
Additional provisions raised	335,350	335,350	IPSAS 19.97(b)
Increase due to unwinding of time value of money	286,549	286,549	IPSAS 19.97(e)
Amounts used	(128,673)	(128,673)	IPSAS 19.97(c)
Increase due to increase in input costs assumption	88758	88758	IPSAS 19.97(e)
	2,426,013	2,426,013	
Less: current portion	(219,392)	(219,392)	
Non-current provisions	2,206,621	2,206,621	IPSAS 19:97 (a)

Various assumptions are applied in arriving at the carrying value of provisions that are recognized in terms of the requirements of IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets.

Management further relies on input from the Group's lawyers in assessing the probability on matters of a contingent nature. Contingent liabilities are disclosed in note 48. IPSAS 19.98(a)(b)

Environmental rehabilitation

A provision for the estimated cost of rehabilitating waste sites is made based on the Group's licensing terms on the waste landfill sites. The provision has been determined on the basis of a recent independent study. The cost factors derived from the study by a firm of consulting engineers have been applied and projected at an annual inflation rate of 5.4% (2017: 5.9%) and a discount rate that reflects the risks specific to the liability of 11% (2017: 11%).

The payment dates of total closure and rehabilitation are uncertain, but are currently expected to be between 2020 and 2030.

40. Employee benefit obligations

40.1 Pensions and other post-employment benefit plans

The Group accounts for provisions for post-retirement benefits to eligible councillors and employees. IPSAS 39.137

Post-retirement medical aid

IPSAS 39.141

For the past service of current and retired employees, the Group recognizes and provides for actuarially determined present value of post-retirement medical aid employer contributions on an accrual basis, using the projected unit credit method. The actuarial valuation is performed annually.

The members of medical aid schemes entitled to a post-retirement medical scheme subsidy as at 31 December 2018 constituted 12,641 (2017: 12,654) in-service members and 8 754 (2017: 8,729) retired members.

It was assumed that the employer's health care arrangements and subsidy policy would remain as outlined in the accounting policy, and that the level of benefits and contributions would remain unchanged, with the exception of inflationary adjustments. Implicit in this approach is the assumption that the current levels of cross-subsidization from in-service members to retiree members within the medical scheme are sustainable and will continue.

It is further assumed that the subsidy will continue until the last survivor’s death for eligible members and their spouses, and to age 21, if earlier, for dependent children.

Continuation of membership

It is assumed that 100% of in-service members entitled to a post-retirement subsidy retiring from the Group will remain on the employer's health care arrangements.

Family profile

Family profile was based on actual data and, therefore, no assumptions had to be made.

Plan assets

Currently, no long-term assets are set aside off balance sheet in respect of the employer’s post-employment healthcare liability.

Discount rate

The fund benefit liability to the Group as at 31 December 2018 has been discounted at a rate determined on the basis of the yield of 8% (2017: 8.7%) per annum on government bonds.

Retirement pension benefits

For past service of employees and retired employees, the Group recognizes and provides for the actuarially determined present value of post-retirement pensions on an accrual basis, using the projected unit credit method.

The number of employees who were eligible for a post-retirement pension at 31 December 2018 was 35 (2017: 40) current employees and 120 (2017: 126) retired employees.

Plan assets

Currently, no long-term assets are set aside off balance sheet in respect of the employer’s post-employment pension liability and the plan is currently treated as an unfunded plan.

The fund’s benefit liability to the Group as at 31 December 2018 has been discounted at a rate determined on the basis of the yield of 8% (2017: 8.7%) per annum on government bonds.

The following tables summarize the components of net benefit expense recognized in surplus or deficit and the funded status and amounts recognized in the statement of financial position for the plan.

40.1 Pensions and other post-employment benefit plans continued

Benefit liability as at 31 December 2018

	Defined benefit plan	Post-employment medical benefits	Total	IPSAS 39.142 (a)
	€000	€000	€000	
Current benefit obligation	290,219	5,923	296,142	
Non-current benefit obligation	5,089,132	103,860	5,192,992	
Total employee benefit liability	5,379,351	109,783	5,489,134	

Benefit liability as at 31 December 2017

	Defined benefit plan	Post-employment medical benefits	Total	IPSAS 39.142 (a)
	€000	€000	€000	
Current benefit obligation	300,758	6,138	306,896	
Non-current benefit obligation	5,254,170	107,228	5,361,398	
Total employee benefit liability	5,554,928	113,366	5,668,294	

Changes in the present value of the defined benefit obligation are:

	Defined benefit plan	Post-employment medical benefits	Total	IPSAS 39.143
	€000	€000	€000	
Defined benefit obligation at 1 January 2017	5,272,189	111,932	5,384,121	
Interest expense	243,681	5,401	249,082	
Current service cost	50,846	4,280	55,126	
Contributions paid	(314,570)	(10,607)	(325,177)	
Remeasurements of the net defined benefit liability	302,782	2,360	305,142	
Defined benefit obligation at 31 December 2017	5,554,928	113,366	5,668,294	
Interest expense	254,270	1,536	255,806	
Current service cost	59,194	651	59,845	
Contributions paid	(326,316)	(3,505)	(329,821)	
Remeasurements of the net defined benefit liability	(162,725)	(2,265)	(164,990)	
Defined benefit obligation at 31 December 2018	5,379,351	109,783	5,489,134	

The cost of the defined benefit pension plan and other post-employment medical benefits, and the present value of the pension obligation, are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. The principal assumptions used in determining pension and post-employment medical benefit obligations for the Group's plans are shown below:

IPSAS 39.146

	2018	2017
	%	%

Discount rate	8.0	8.7
General inflation	5.4	5.9
General salary inflation rate	9.2	6.6
Health care cost inflation rate	7.2	7.4
Net effective discount rate	0.8	1.2

40.1 Pensions and other post-employment benefit plans continued

A one percentage point change in the assumed rate of increase in healthcare inflation would have the following effects:

IPSAS 39.147
IPSAS 39.147 (a)

	Increase	Decrease
2018	€000	€000
Effect on the current service cost	17,428	14,000
Effect on the current interest cost	42,205	34,268
Effect on the defined benefit obligation	593,796	481,118
2017		
Effect on the current service cost	11,190	8,989
Effect on the current interest cost	40,447	32,841
Effect on the defined benefit obligation	496,639	402,397

A one percentage point change in the assumed discount rate would have the following effects: IPSAS 39.147 (a)

	Increase	Decrease
	€000	€000
2018		
Effect on the current service cost	11,092	7,664
Effect on the current interest cost	20,953	13,926
Effect on the defined benefit obligation	94,256	195,803
2017		
Effect on the current service cost	11,190	4,921
Effect on the current interest cost	20,953	13,346
Effect on the defined benefit obligation	78,833	163,766

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another. IPSAS 39.147 (b) and (c)

Risks to which the defined benefit plan exposes the Group IPSAS 39.141 (b) IPSAS 39.150

All the entities that form part of the Group are part of a multi-employer plan. When deficits are identified in the fund, the members of the Group provide lump sum payments or increase their contributions on a proportional basis to the benefit obligation. If the benefit obligation of an entity represents a 30% of the total benefit obligation of the multi-employer plan, that entity should assume the 30% of the deficit identified in the fund. The entities are not allowed to withdraw from the plan, therefore, it is unlikely that the entities within the group would be liable for other entities' obligations.

Maturity analysis of the defined benefit obligation

IPSAS 39.149

It is expected that the contributions to the plan for 2019 will be of €360.165 million, considering a 9.2% increase with respect to the contributions of 2018.The Group has a liquidity ratio of 1.53, and a high level of cash and cash equivalents, which allows it to assume negative changes to the current service cost, current interest cost and defined benefit obligation without having a shortage of cash.

The following table presents information about the distribution of the timing of benefit payments.

Defined benefit obligation	Payables in 2019	Payables in 1 - 5 years	Payables > 5 years	Total defined benefit obligation
	€000	€000	€000	€000
Post-employment medical benefits	10,978	54,892	43,913	109,783
Defined benefit plan	268,967	1,882,773	3,227,611	5,379,351
Balance as per 31 December 2018	279,945	1,937,665	3,271,524	5,489,134

40.1 Pensions and other post-employment benefit plans continued

Considering that the multi-employer plan is unfunded, it is expected that the contributions of the employers and its employees will cover the total of benefit payments each year represented in the maturity analysis above.

40.2 Long service leave

	Long service leave
	€000
Balance at the beginning of the year	313,527
Additional provisions raised	26,905
Increase due to unwinding of time value for money	39,775
Amounts used	(40,927)
Increase due to increase in input costs assumption	37,535
	376,815
Less: current portion	-
Non-current obligation	376,815

The vested leave benefit has been valued by CBR Ltd. The provision is utilized when eligible employees receive the value of the vested benefits. The valuation is performed every three years and the effective date of the last valuation is 31 December 2018.

The fund benefit liability as at 31 December 2018 has been discounted at the market yields on government bonds consistent with the estimated term of the liability. A discount rate of 7.5% (2017: 8.8%) per annum has been used.

Key financial assumptions:	2018	2017
	%	%
Discount rate	7.5	8.8
General inflation rate (CPI)	5.4	5.9
Salary increases	9.2	6.6

Commentary

IPSAS 39.161 clarifies that the standard does not prescribe any minimum disclosures for other long-term employee benefits. However, in keeping with IPSAS 3, the disclosure above includes a discussion of the significant judgements and uncertainties that inform the measurement of the obligation. Inclusion of this information enhances the understanding of the users of the financial statements.

40.3 Short term employee benefit obligations

	Leave benefits	Performance bonuses	Total
	€000	€000	€000
Balance at the beginning of the year	299,783	214,68	321,251
Additional provisions raised	38,908	55,068	93,976
Provision utilized	(28,762)	(23,468)	(52,230)
Change in provision due to change in discount factor and time value of money	(7,489)	1,076	(6,413)
Balance as at 31 December 2018	302,440	54,144	356,584

Leave benefits

Annual leave accrues to employees on a monthly basis, subject to certain conditions and constraints. The provision is an estimate of the amount due to staff as at the financial year end, based on the value of statutory and non-statutory leave. The provision was calculated based on the leave entitlement due to staff at year end adjusted for:

- Experience adjustment in relation to the forfeiture of leave, leave encashment trends and leave taken trends
- The salary scales applicable at the time of leave encashment and realization of leave by employees
- Uncertainty is related to this provision is contained in the rate at which leave is realized either through taking the leave or by having leave paid out along with the timing of such realization

40.3 Short term employee benefit obligations continued

Performance bonuses

Performance bonuses accrue to staff on an annual basis subject to the achievement of predetermined performance standards. The provision is an estimate of the amount due to staff in the service of the Group at the reporting date. At the reporting date, the performance assessment process was not yet complete and, as such, the provision is based on an extrapolation of the quarterly performance assessments taking performance trends and the availability of budget for bonuses into consideration.

Commentary

IPSAS 39.25 clarifies that the standard does not prescribe any minimum disclosures for short-term employee benefits. However, in keeping with IPSAS 3, the disclosure above includes a discussion of the significant judgements and uncertainties that inform the measurement of the obligation. Inclusion of this information enhances the understanding of the users of the financial statements.

40.4 Total employee benefit obligation

	2018	2017
	€ 000	€ 000
Non-current obligation		
Pensions and other post-employment benefit plans	5,192,992	5,361,398
Long service award	376,815	313,527
Total non-current	5,569,807	5,674,925
Current obligation		
Pensions and other post-employment benefit plans	296,142	306,896

Long service award	-	-
Short term employee benefits	356,584	321,251
Total current	652,726	628,147
Total employment benefit obligations	6,222,533	6,303,072

41. Finance lease obligation

Amounts payable under finance leases

2017	Minimum lease payments	Future finance charges	Present value of minimum lease payments
	€000	€000	€000
Within one year (current portion)	5,132	(2,998)	2,134

The average lease term was five years and the average effective borrowing rate was 5.64%. Interest rates were variable. No arrangements have been entered into containing contingent rent. Leased assets (see note 31) have been pledged as security for the finance lease obligation.

There are no outstanding finance lease liabilities as at 31 December 2018.

42. Borrowings

	2018	2017
	€000	€000
Government bonds issued	995,000	995,000
Bank loans	434,827	486,135
	1,429,827	1,481,135
Less: total current portion of bank loans	(286,962)	(126,354)
Total non-current borrowings	1,142,865	1,354,781

Government bonds issued

IPSAS 30.10

The Group issued €995 million government bonds to the open market. These bonds are unsecured and have the following terms and conditions:

- Subscription price of €10 per bond
- The bonds mature in 2025
- Coupon rate for the bonds is 10% per annum
- Interest is compounded monthly and paid quarterly to bond holders
- At the reporting date, the accrued interest was settled

The Group has not breached or defaulted on the bonds in issue.

Bank loans

IPSAS 30.22

The Group has a 5 year bank loan which was due to be settled in 2021, repayable quarterly and with an initial interest rate of 7.6% per annum.

The loan is unsecured and carries a penalty clause which stipulates that, in the event of default of a quarterly payment, the entity will be required to make a penalty payment. During the last quarter of 2018, the entity failed to make timely payment on the bank loan. As at the 2018 reporting date, the entity finalized negotiations with the bank to settle the quarterly payment within one month after the reporting date. As a result of the negotiations, an additional penalty payment accrued to the entity that was capitalized in the current portion of the loan. The penalty amounted to €86.79 million.

As a further consequence of the default, the interest rate was increased to 23.6% per annum. This increase in the interest rate has led to an increase in the amount of interest capitalized on the loan.

43. Related party disclosures

The Group forms part of the Government of Euroland and is thus is subject to relationships and influence from various structures such as oversight and policy setting bodies within government. The Group frequently transacts with other government entities which may be considered to be related by virtue of them being part of the same government (under common control). While these parties may be considered related, disclosure is only provided in respect of transactions with other government entities that fall outside the normal operating relationships between the Group and those entities, or where the terms and conditions are not considered to be normal under the circumstances.

IPSAS 20.25, .26

IPSAS 20.29

These financial statements include the financial statements of the Group and the controlled entities listed in the following table:

IPSAS 20.25, .26

		% equity interest	
Name	Country of incorporation	2018	2017
Conferencing company	Euroland	53%	53%
Projects company	Euroland	70%	-
Infrastructure company	Euroland	90%	90%

Key management's interest:

Senior Executive, F. Friedman has a 25% interest in Full Flavor Caterers Limited. Total transactions with the company amounted to €1.500 million (2017: €1.300 million) and were included in general expenses in note 20. Included in the payables balance is €300,000 (2017: €215,000) related to amounts payable to the related party.

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2018, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2017: €Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Key management personnel

The key management personnel, as defined by IPSAS 20 Related Party Disclosures, are the members of Council, who together constitute the governing body of the Group. The total remuneration of members of Council and the number of individuals, on a full-time equivalent basis, receiving remuneration from the Group are:

Total remuneration	€97.920 million	IPSAS 20.34(a)
Number of persons	132 persons	

43. Related party disclosures continued

Remuneration of key management personnel

2018	Annual salary	Bonus	Allowances*	Contributions**	Total
	€000	€000	€000	€000	€000
City manager	1,532	138	2	242	1,914
Deputy city manager (appointed 1/06/2018)	789	138	-	108	1,035
Head of community services	1,140	112	84	172	1,508
Head of corporate services	1,155	184	107	93	1,539
Head of economic, environmental and spatial planning	1,145	58	37	98	1,338
Head of finance	1,123	124	211	185	1,643
Head of health	912	177	133	183	1,405

Head of integrated human settlement services	1,392	110	-	174	1,676
Head of safety and security	1,090	104	95	158	1,447
Head of social development and early childhood development (1/01/2018 to 31/12/2018)	682	-	-	1	683
Head of tourism, events and marketing (appointed 1/07/2018)	610	-	-	1	611
Head of transport, roads and storm water	1,313	-	75	100	1,488
Head of utility services	1,134	52	47	176	1,409
Head of conferencing company	1,322	179	-	-	1,501
Total	15,339	1,376	791	1691	19,197

2017	Annual salary	Bonus	Allowances*	Contributions**	Total
	€000	€000	€000	€000	€000
City manager	1,334	375	14	217	1,940
Head of community services	1,024	305	84	150	1,563
Head of corporate services	1,069	298	71	159	1,597
Head of economic, environmental and spatial planning	930	235	87	155	1,407
Head of finance	957	305	117	171	1,550
Head of health	851	282	133	163	1,429
Head of integrated human settlement services	1,051	298	8	160	1,517
Head of safety and security	931	149	95	138	1,313
Head of strategy and planning (until 31/04/2017)	489	248	16	50	803
Head of transport, roads and storm water	1,197	339	3	189	1,728
Head of utility services	1,164	264	47	159	1,634
Head of conferencing company	1,167	120	7	20	1,314
Total	12,164	3218	682	1731	17,795

*Allowances include travel, vehicle, accommodation, subsistence and other allowances
** Contributions include contributions to unemployment insurance fund (UIF), medical and pension funds

43. Related party disclosures continued

Commentary

IPSAS 20 describes key management personnel (KMP) as all directors or members of the governing body of the entity and other persons having the authority and responsibility for planning, directing, and controlling the activities of the reporting entity (see IPSAS 20.4 for details). The remuneration of KMP is often established by statute or some other formal independent tribunal or process. However, the responsibilities of their office may enable them to influence the benefits that flow to them or their related parties. Consequently, IPSAS 20 requires specific disclosure to be made in aggregate about:

- The remuneration of KMP and close family members of KMP during the reporting period
- Loans made to them
- The consideration provided to them for services they provide to the entity other than as a member of the governing body or an employee

Due to the nature of related party transactions, they may be considered qualitatively material despite the amount or size of the transaction.

It should be noted that there are likely to be additional jurisdiction-specific rules around related party disclosures and, in particular, around KMP. For instance, although IPSAS 20 requires disclosure of aggregate information in respect of the remuneration of KMP, for the purposes of these illustrative financial statements, the Group has provided additional detail such as the names and designations of the KMP. This level of detail may, however, not be appropriate or necessary in all jurisdictions.

44. Public sector combination

Acquisition of a controlled entity

The Group acquired 70% of the ordinary shares and voting rights in Projects Company and obtained control of it on 30 September 2018. Projects Company is listed on the Euroland Stock Exchange and its primary revenue stream is derived from specialist project management of infrastructure and housing development programmes for a variety of clients in the construction industry. The Group's mandate was expanded to include more social housing development activities that resulted in more complex projects being undertaken by the Group. However, the Group did not have the necessary skills, systems IPSAS 40.120 (a)-(d) and processes to undertake these projects on its own and contracted the Projects Company to execute the Group's social housing development mandate on its behalf. After a review of the relationship with Projects Company, the Group identified unnecessary duplication of costs that could be avoided in the social housing development projects if the Projects Company was acquired by the Group. The acquisition of the Projects Company was therefore undertaken, through a sale of shares agreement with the shareholders of the Projects Company, to eliminate duplicate costs to improve the cost effectiveness of the social housing development mandate of the Group and ensure the sustainability of the Group's ability to deliver on its social housing development mandate. The Group's legal mandate and framework permits the acquisition of other companies. Furthermore, the existing client base and activities of the Projects Company will enhance the revenue generated by the Group and further reduce the Group's reliance on government for funding.

The goodwill recognised is as a result of synergies expected from combining the operations of the Group and Projects Company. These synergies include the following: IPSAS 40.120 (e), (k)

- The existing client base of the Projects Company that will increase the revenue generation ability of the Group and reduce the Group's reliance on government for funding; and
- Urban design and sustainable housing methodologies and solutions developed and owned by the Projects Company that do not qualify for separate recognition as intangible assets.

The goodwill recognised is not expected to be deductible for tax purposes.
The following represents the consideration transferred for Projects company and the amounts of the assets acquired and the liabilities assumed, as well as the fair value of the non-controlling interest at acquisition date:

	€000	
Consideration transferred		
Cash	300,000	IPSAS 40.120(f)(i)
Contingent consideration	58,000	IPSAS 40.120(f)(iii); 120(g)(i)
	358,000	IPSAS 40.120(f)

Commentary

In this example, the Model Public Sector Group is prohibited by public finance management regulations from transferring any equity interest in the entity to third parties. Therefore, this example excludes the transfer of equity interest as a form of compensation for the acquisition.

44. Public sector combination continued

IPSAS 40.120 (g)(ii), (iii)

The contingent consideration agreement requires the Group to pay the previous owners of Projects Company € 70 000 000 if Projects Company's profits increase by more than 7% per year for the next two years. The range of undiscounted outcomes that the Group could be expected to pay is between € 0 - € 70 000 000.
To determine the fair value of the contingent consideration to be recognized, the Group applied a weighted average probability model. This model uses the following inputs: IPSAS 40.124 (b)(iii)

- The probability of the Projects Company increasing its profits by more than 7% in the coming two years, based on the company performance, budgets and growth plans;
- The probable outcomes where the Projects Company increases its profitability by more than 7% (i.e., if the Projects Company increases its profits by more than 7%, what are the probable growth percentages?);
- Analysis of market trends for similar companies to determine the reasonability and achievability of projected growth plans for the Projects Company; and
- A discount rate of 5%, which is based on the prevailing interest rate adjusted for risks specific to the liability.

Using the outcome of the 90% probability range of the model, the Group arrived at a fair value of € 58 000 000, which presents the present value of the most likely outcome, on acquisition date.
At 31 December 2018, no changes were noted in the contingent consideration recognized and no changes were noted in the range of undiscounted outcomes. IPSAS 40.124 (b)(i), (ii)

Commentary

This scenario does not reflect any changes in the contingent consideration, because it assumes insignificant fluctuations in inputs into the measurement model applied for contingent consideration. Also, the measurement model presumes a consistent performance trend for the acquiree. If the acquisition took place in a jurisdiction where there are regular and more volatile fluctuations in inputs into the measurement model, for example significant changes in inflation, it would be necessary to re-measure the contingent consideration at the reporting date to account for any such changes in the inputs into the model. Also, if key officials of the acquiree (which are deemed crucial to maintain the projected performance of the acquiree) were to resign subsequent to the acquisition, it may also be necessary to review the assumptions used in the measurement model for contingent consideration (e.g. adjust the likelihood of the projected outcomes and/or the range of outcomes). When any such changes are made that result in a change to the value of the contingent consideration at the reporting date, IPSAS 40.124(b) requires those changes to be disclosed. Such disclosure will include the amount of the change, the reasons for the change and the valuation technique/inputs into the valuation model that resulted in the changes.

If the contingent consideration is settled in the reporting period following the current reporting period, IPAS 40.12(b) requires disclosure of the amount of the difference (if any) between the estimated contingent consideration and the actual contingent consideration paid. This disclosure must also include a description of the reasons for the change and the valuation technique/inputs into the valuation model that resulted in the changes.

	€000	
Identifiable assets acquired and liabilities assumed		IPSAS 40.120(i)
Financial assets	307,727	
Property, plant and equipment	501,900	
Intangible assets	20,241	
Financial liabilities	(380,998)	
Taxation payable	(1,012)	
Contingent liability	(79,468)	
Total identifiable net assets	368,390	
Non-controlling interest	(90,870)	IPSAS 40.120(p)(i)
Goodwill	80,480	
Consideration transferred	358,000	

The fair value of the financial assets includes receivables with a fair value of € 250 305 000. The gross amounts due in accordance with the customer contracts amounts to € 280 740 000, of which € 10 880 000 is expected to be irrecoverable. Receivables acquired consist of the following major classes: IPSAS 40.120 (h)

Class	Fair value	Gross amount receivable	Impairment	Net receivable
	€000	€000	€000	€000
Trade receivables from exchange transactions	245,070	275,505	10,880	264,625
Short term staff loans	5,235	5,235	-	5,235
Total	250,305	280,740	10,880	269,860

IPSAS 40.120 (j), 124(c)

44. Public sector combination continued

The contingent liability represents a claim instituted against the Projects Company by one of its clients in relation to a breach of contract. The fair value of the claim recognized at € 79 468 000 on acquisition date was determined in consultation with the Projects Company's lawyers using a weighted average probability model. This model considers the following inputs in determining the potential value of the claim:

- The likelihood that the claim would be successful taking into account the facts of the case, case law and legal precedents in the jurisdiction;
- The range of probable outcomes of the claim and the likelihood of the realization of each of those possible outcomes;
- The expectation that the claim would be resolved by mid-2020;
- A discount rate of 5.2%, which is based on the prevailing interest rate (reflecting the market assessment of time value of money) adjusted for risks specific to the liability.

Using the outcome of the 90% probability range of the model, the Group arrived at a fair value of € 79 468 000, which presents the present value of the most likely outcome on acquistion date.
As at 31 December 2018, there has been no change since the acquisition date in the amount recognized for the contingent liability or any change in the range of outcomes used to determine its fair value.

The non-controlling interest in Projects Company is measured at fair value. Projects Company is a listed entity. The fair value of the non-controlling interest in Projects Company was determined by reference to its share price on acquisition date. No adjustments were made in respect of the share price quoted on the stock exchange. IPSAS 40.120 (p)

The most updated valuations of the acquired intangible assets have not been received at year end. The fair value of the intangible assets is therefore provisional pending their valuations. The acquired intangible assets consist mainly of internally developed project management software that does not have a readily available market price. The fair value of the software is complex due to the unique attributes of the software. Due to the complex nature of the valuation, the initial accounting for the fair value of intangible assets is not yet complete at the reporting date. No measurement period adjustments have been made during the reporting period, because a reliable valuation has not yet been completed. IPSAS 40.124 (a) & IPSAS 40.122

Commentary

For the example it was assumed that control was achieved through a one-off acquisition, rather than through a phased acquisition process. It should be noted that if the acquisition was achieved through phases (e.g. tranches of shares were acquired over a period of time to acquire control of the Project Company) then it would trigger additional disclosure. Specifically IPSAS 40.120(q) would apply. For example, where the acquisition was achieved in phases and the entity held 40% of the voting rights (shares) in the Project Company before acquiring control (i.e. control was acquired through the acquisition of an additional 30% of the voting rights (shares) in Project Company), then the following additional disclosure would have been required:

Fair value of 40% interest in held in Project company	€ 198,000
Acquisition date Fair value of the 40% interest held in Project Company	€ 204,060
Gain on re-measurement of interest held prior to obtaining control*	€ 6,060

* The note would have to specify in which line item of the statement of financial performance this gain was included. The same disclosure would be required if a loss was incurred on the remeasurement.

This example assumes that the acquisition did not result from a bargain purchase arrangement and also that the acquisition did not result in a loss. As such, the disclosure in IPSAS 40.120(o) and IPSAS 40.120(n) respectively have not been included.

The example also assumes that there were no transactions that were recognized separately from the acquisition, therefore the disclosures in IPSAS 40.120(l) & (m) are not made.

The following amounts were recognised in the Consolidated Statement of Financial Performance of the Group relating to Projects Company for the year ended 31 December 2018: IPSAS 40.120 (r)(i)

	€000
Revenue from exchange transaction - Rendering of services	260,316
Expenditure	(171,736)
Surplus for the period	88,580

Had the acquisition date been at the beginning of the financial period (i.e. 1 January 2018), the following amounts would have been included in the consolidation: IPSAS 40.120 (r)(i)

	€000
Revenue from exchange transaction - rendering of services	1,041,266
Expenditure	(686,943)
Surplus for the period	354,323

44. Public sector combination continued

IPSAS 40.124(d)

Reconciliation of goodwill

	€000
Opening balance	0
Goodwill acquired	80,480
Goodwill impaired	0

Closing balance	80,480

Commentary

IPSAS 40 deals with two types of combinations i.e. Acquisitions (as disclosed above) and Amalgamations. The differences are illustrated in the table below:

	Amalgamations	Acquisitions
Classification	No party to the combination gains control of one or more operations OR One party to the combination gains control of one or more operations and there is evidence that the combination has the economic substance of an amalgamation.	One party to the combination gains control of one or more operations and there is evidence that the combination is not an amalgamation.
Method of accounting	Modified pooling of interests method	Acquisition method
Recognition principle	Resulting entity shall recognize the identifiable assets, liabilities and non-controlling interests that are recognised in the financial statements of the combining operations as of amalgamation date. The identifiable assets and liabilities must meet the definitions of assets and liabilities in the Conceptual Framework. Difference between identifiable assets, liabilities and non-controlling interests are recognized in net assets/equity.	Acquirer shall recognize separately from goodwill the identifiable assets acquired, liabilities assumed and non-controlling interest in the acquired operations as of acquisition date. The identifiable assets and liabilities must meet the definitions of assets and liabilities in the Conceptual Framework. Recognize goodwill/gain on bargain purchase subject to the limitations in IPSAS 40.86.
Measurement principle	Assets and liabilities taken over at carrying values.	Assets and liabilities measured at fair values.
Presentation	Does not require but permits the resulting entity to provide comparatives in their financial statements.	Comparatives are required.
Disclosure	Similar disclosure as for Acquisitions. Assuming that comparatives are provided, the following disclosure would have been relevant for the Group had the Acquisition been an Amalgamation: As per the Acquisitions disclosure above, the disclosure for IPSAS 40.120(a)-(d), IPSAS 40.120(i) and IPSAS 40.124(a) would remain for Amalgamations. The following would be disclosed in addition to this: * The adjustments made to the carrying amounts of assets and liabilities to eliminate the effect of transactions between the combining operations. * An analysis of net assets and any significant adjustments recognized in net assets as a result of the amalgamation.	See above (note 44).

45. Interest in controlled entities

The controlled entities of the group are: IPSAS 38.17 (a), IPSAS 38.19

		% equity interest		% non-controlling interest	
Name	Domicile	2018	2017	2018	2017
Conferencing Company	Euroland	53%	53%	47%	47%
Projects Company	Euroland	70%	-	30%	-
Infrastructure company	Euroland	90%	90%	10%	10%

Summarised financial information

The summarized financial information of these controlled entities is provided below. This information is based on amounts before inter-company eliminations.

IPSAS 38.19 (g)

	Conferencing Company		Projects Company	Infrastructure Company	
	2018	2017	2018	2018	2017
	€000	€000	€000	€000	€000
Summarised statement of financial position					
Inventories, cash and receivables (current)	321,898	160,678	807,723	3,875,678	4,625,432
Property, plant and equipment and other non-current assets (non-current)	1,175,679	1,100,890	1,022,141	7,321,908	7,024,566
Trade and other payables, bank overdraft (current)	(360,441)	(480,744)	(482,010)	(2,701,704)	(2,500,432)
Interest-bearing loans and borrowing and deferred tax liabilities (non-current)	(838,960)	(900,872)	(579,468)	(2,768,908)	(2,900,767)
Net Assets	298,176	(120,048)	768,386	5,726,974	6,248,799
Summarised statement of financial performance					
Revenue	701,822	376,543	1,041,266	5,402,675	5,098,765
Expenses	(700,275)	(626,289)	(686,943)	(4,235,596)	(3,936,557)
Surplus/(deficit)[1]	1,547	(249,746)	354,323	1,167,079	1,162,208
Summarised cash flow information					
Operating	1,897	(263,124)	390,554	1,212,762	1,200,012
Investing	(5)	-	82	(896,032)	(787,110)
Financing	(8)	(11)	(9,511)	(26,342)	(50,113)
Net increase/(decrease) in cash and cash equivalents	1,884	(263,135)	381,125	290,388	362,789

Restrictions of Conferencing Company

IPSAS 38.20 (a), (c)

Conferencing Company has a loan covenant in place with a bank that restricts it from acquiring any loans until such time that Conferencing Company's loan with this bank is 50% repaid. The value of the loan on which the restriction is placed amounts to € 500 870 (2017: € 560 487).

Infrastructure Company's interest in a consolidated structured entity

IPSAS 38.21, .24

Infrastructure Company has a subordination agreement in place with Conferencing Company. The agreement stipulates that the Infrastructure Company will assist Conferencing Company in obtaining financial support in the event that Conferencing Company is unable to meet its commitments to customers from its working capital reserves. Infrastructure company has the intention to assist Conferencing Company to obtain financial support should they meet the criteria as stipulated in the subordination agreement.

[1] The summarized financial information is for the full financial year. Refer to note 44 for the revenue, expenses and surplus of Project company from acquisition date.

Commentary

IPSAS 38.22 requires disclosure when a controlling entity or its controlled entities provided financial or other assistance to its consolidated structured entity without having the obligation to do so. The Group did not engage in such transactions during the 2017 or 2018 financial year.

IPSAS 38.25 requires disclosure of information to enable the users to evaluate the consequences of changes in ownership interests of a controlled entity during the period which does not result in a loss of control. The Group did not have changes in interest over its controlled entities during the 2017 or 2018 financial year.

IPSAS 38.26 requires disclosure of information when an entity loses ownership interests of a controlled entity during the period which results in a loss of control. The Group did not lose control over its controlled entities during the 2017 or 2018 financial year.

46. Interest in associate

The Group has a 17% interest in Renewable Power Company which it acquired on 31 October in the current financial year. Renewable Power Company is involved in the generation of renewable energy. The Group outsources some of its public energy needs to Renewable Power Company. Renewable Power Company is incorporated in Euroland and is a private entity that is not listed on any public exchange. The Group's investment in Renewable Power Company is measured using the equity method. IPSAS 38.36 (a), (b)(i), (b)(iii)

Summarised financial information of Renewable Power Company IPSAS 38.36 (b) (ii)

	2018
	€000
Current assets	171,888
Non-current assets	1,191,671
Current liabilities	(170,322)
Non-current liabilities	(810,321)
Equity	382,906
Group's share in net assets	61,467
Goodwill	2,367
Group's carrying value of the investment	63,834
Revenue	505,442
Cost of sales	(290,745)
Administrative costs	(90,332)
Finance costs	(87,812)
Surplus before tax	36,553
Tax expense	(10,950)
Surplus after tax	25,603

No dividends were received from Renewable Power Company during the year.
The Group did not incur any contingent liabilities relating to its interest in Renewable Power Company. IPSAS 38.39 (b)

Associate's year end different to the Group

IPSAS 38.38 (b)

Renewable Power Company has a year end of 30 November. The reporting date cannot change as it is set in line with Renewable Power Company's controlling entity. Renewable Power Company's financial statements for the year ended 30 November 2018 have been used and adjustments have been made for the effects of any significant transactions that occurred between Renewable Power Company's year-end and the Group's year end.

Restrictions on the associate

IPSAS 38.38 (a)

Renewable Power Company cannot distribute its profits without the consent of its controlling entity.

Commentary

IPSAS 38.36 (c) require disclosure of the aggregated information of associates that are not individually material. The Group did not have any immaterial associates or joint ventures.

IPSAS 38.38 (c) requires disclosure of unrecognized share of losses of an associate. This is not applicable to the Group.

If the Group had incurred contingent liabilities relating to its interest in associate, it would be disclosed separately from other contingent liabilities. The disclosure requirements in IPSAS 19 would be applied.

47. Interest in joint operation

The Group has a 50% interest in Refuse Removers. Refuse Removers is involved in waste removal services for two district municipalities in Euroland. The Group uses Refuse Removers for the public's waste removal. This better enables the Group to deliver on its mandate with regards to waste removal services. Refuse Removers is a public entity incorporated in Euroland. The Group recognizes in relation to its interest in Refuse Removers, its share of each of the assets, liabilities, income and expenses of Refuse Removers with similar items, line by line, in its consolidated financial statements. IPSAS 38.36 (a)

Commentary

IPSAS 38.36 (b) and (c) do not require summarized financial information to be disclosed for joint operations. It only makes specific reference to joint ventures and associates for purposes of this disclosure.

48. Commitments and contingencies

48.1 Capital commitments

IPSAS 17.89(c)

	2018	2017
	€000	€000
Authorized but not yet contracted:		
Infrastructure	256,987	135,853
Approved and contracted:		
Infrastructure	1,418,983	1,203,958
Community	21,302	166,267
Other	587,050	8,990
Total capital commitments	2,284,777	1,515,068

48.2 Operating lease rentals

The Group as lessee IPSAS 13.44

Future minimum lease payments under non-cancellable operating leases:

	2018	2017
	€000	€000
Land and buildings		
Due within one year	25,785	45,031
Due within two to five years	42,657	12,024
Later than five years	-	-
	68,442	57,055
Vehicles and other equipment		
Due within one year	56	116
Due within two to five years	-	254
Later than five years	-	69
	56	439
Total operating lease expense commitments	68,498	57,494

Minimum lease payments recognized as an expense during the period amount to €45 million (2017: €63 million). Leased premises are contracted for the remaining periods of between one and four years, with renewal options available in certain instances. The lease payments increase by an amount equal to the ruling inflation rate on the anniversary date of the contract.

The Group as lessor

Future minimum lease income under non-cancellable operating leases:

	2018	2017	
Buildings	€000	€000	
Due within one year	17,204	17,833	IPSAS 13.69 (a) (i)
Due within two to five years	62,138	59,327	IPSAS 13.69 (a) (ii)
Later than five years	241,871	249,486	IPSAS 13.69 (a) (iii)
Total	321,213	326,646	

The Group lets properties under operating leases. Property rental income earned during the year was €20 million (2017: €26 million). The properties are maintained by the tenants at no cost to the Group. No investment properties have been disposed of since 31 December 2018.

The impact of charging the escalations in operating leases on a straight-line basis over the term of the lease has been an increase of €1 million in current year income. IPSAS 13.44 (d)

48.3 Contingencies

At year end, the Group had the following contingent liabilities:

	2018	2017	
	€000	€000	
National union of workers	2,894,329	2,894,329	IPSAS 19.100(a)

A claim amounting to €900,000 on behalf of ex-employees for labour disputes was instituted against the Group. IPSAS 19.100(b)
The arbitrator has pronounced on the matter, but the Group has instituted review proceedings. The legal representatives assessed the probability of the claim being awarded as being reasonably high, however, the value of the final claim cannot be reliably measured at this point in time as it is subject to the arbitrator's judgement covering a wide and complex range of circumstances.

49. Cash generated from operations

	2018	2017	IPSAS 2.26
	€000	€000	
Surplus for the year before tax	2,521,841	1,832,538	
Adjusted for:			
Depreciation	1,394,834	1,283,682	
Non-cash grants received	(95,963)	(208,493)	
Contributed assets	(76,435)	-	
Impairment	27,392	25,958	
Gains and losses on disposal of assets	(42,397)	(16,909)	
Contribution to provisions	815,325	498,789	
Contribution to impairment allowance	352,544	523,050	
Finance income	(569,982)	(530,589)	
Finance cost	683,166	719,170	
Working capital adjustments:			
Increase in inventory	(17,751)	(37,076)	
Increase in receivables	(735,555)	(724,761)	
Increase in grant liability	557,072	60,240	
Increase in payables	443,316	271,703	
Increase in payments received in advance	388	6,207	
Net cash flows from operating activities	5,257,795	3,703,508	

50. Service concession arrangement

During the current reporting period, the Group entered into a service concession arrangement with a private company to provide public bus transportation services to the inner-city district in an effort to reduce congestion and boost economic development in the area. The first phase was launched during the current year. The private company service provider is required to supply the infrastructure for the bus routes, which will be constructed over a period of three years and brought into service in phases.

The Group provides the private company with the exclusive rights to operate the service for 25 years, with no option of renewal, and the pricing of fares is subject to regulation by the Group. The service provider will earn revenue from the fares collected. Upon expiry of the arrangement, the Group will retain the infrastructure assets and the service provider will retain the vehicles. The following service concession assets and liabilities have been recognized as at the reporting date:

IPSAS 32.31-32

	2018	2017
	€000	€000

Fair value of service concession assets recognized in property, plant and equipment – infrastructure (see note 31)	359,900	-	IPSAS 32.32
Accumulated depreciation to-date	(12,000)	-	
Net carrying amount	347,900	-	IPSAS 32.32
Service concession liability - opening	359,900	-	IPSAS 32.15
Service concession revenue recognized	(10,000)	-	IPSAS 32.32
Service concession liability - closing	349,900	-	

Commentary

IPSAS 32 requires consideration of all aspects of the service concession arrangement when determining the appropriate disclosures to be provided in the notes. Since each service concession arrangement is likely to have unique characteristics, IPSAS 32 implies a degree of judgment to ensure that the appropriate information is included. IPSAS 32.32 includes a list of broad disclosure items that are required. For the purposes of these illustrative financial statements, the Group only entered into the service concession arrangement during the current reporting period. In subsequent periods, comparative information will be required. Some jurisdictions may also have specific legislative disclosure requirements for such arrangements, over and above what is required by IPSAS.

51. Segment information

IPSAS 18.12-15

For management purposes, the Group is broadly organised into business units based on the nature of the services they provide. The Group has four primary reportable segments:

- The emergency services segment, which consists of all emergency services such as medical and ambulance services, traffic police, and fire
- The electricity services segment, which covers all aspects of the supply chain for the provision of electricity to businesses and households
- The water services segment, which covers all aspects of the provision of clean drinking water to businesses and households, and sanitation and sewage
- The other segment, which consists of less significant services and the remainder of the Group's business units, including waste removal

No individually material operating segments have been aggregated to form the above reportable operating segments. The Group does not monitor segments geographically.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on non-financial metrics and the segment's operating surplus or deficit, measured consistently with the accounting policies applied in the consolidated financial statements. However, the Group's financing (including finance costs and finance income) and revenue from taxes are managed on a group basis and are not allocated to operating segments.

Inter-business unit services are not valued and are, in terms of policy, supplied for no consideration, and are therefore do not require elimination. However, the quality of services provided internally is monitored as part of the non-financial service performance information.

51. Segment information continued

Commentary

IPSAS 18.65 encourages entities to provide certain minimum information about secondary segments. For example, if an entity determines its primary segments based on service type, but also reports internally on geographical segments, then it is encouraged to provide additional information about the geographical segments, consisting of segment expense, total carrying amount of segment assets, and total capital outlay during the period. For the purposes of these illustrative financial statements, the Group does not report internally to its governing body on the basis of geographical segments. Therefore, no further disclosure has been provided in this regard.

51. Segment information continued

Primary reportable segments - 2018

	Emergency services	Electricity services	Water services	Other services	Other infrastructure	Consolidated total for the Group	
	€000	€000	€000	€000	€000	€000	IPSAS 18.64
Segment revenue							
Fees from external sources - services	112,181	1,809,630	97,449	224,362	-	2,243,622	
Fees from external sources - goods	-	-	9,856,719	12,543	-	9,869,262	
Other revenue	-	-	123,651	621,249	10,351,278	11,096,178	
Segment expenses							
Total segment expenses	(2,064,388)	(7,515,074)	(8,292,356)	(530,647)	(2,174,090)	(20,576,554)	
Deficit from operating activities	(1,952,207)	(5,705,444)	1,785,462	327,508	8,177,188	2,632,508	
Finance costs	-	-	-	-	(683,166)	(683,166)	
Interest income	-	-	-	-	568,395	568,395	
Reconciled to aggregate net surplus	-	-	-	-	-	2,517,737	
Other information							
Segment assets	1,289,238	8,609,954	5,045,156	2,453,960	18,528,665	35,926,973	
Segment liabilities	1,857,726	3,078,029	4,095,401	267,053	7,199,216	16,497,425	
Capital expenditure	320,000	1,058,222	1,322,778	523,588	966,060	4,190,648	
Non-cash expense excluding depreciation (included above)	-	(396,365)	(423,757)	-	(27,392)	(847,513)	
Non-cash revenue (included above)	-	-	44	-	43,940	43,984	

51. Segment information continued

Primary reportable segments - 2017

	Emergency services	Electricity services	Water services	Other services	Other infrastructure	Consolidated total for group	
	€000	€000	€000	€000	€000	€000	IPSAS 18.64
Segment revenue							
Fees from external sources – services	101,858	1,716,724	14,866	203,716	-	2,037,164	
Fees from external sources - goods	-	-	8,443,846	12,543	-	8,456,389	
Other revenue	-	-	115,991	504,222	8,955,633	9,575,846	
Segment expenses							
Total segment expenses	(1,846,316)	(6,519,095)	(7,212,535)	(477,014)	(1,992,877)	(18,047,837)	
Deficit from operating activities	(1,744,457)	(4,802,372)	1,362,168	243,468	6,962,756	2,021,562	
Finance costs	-				(719,170)	(719,170)	
Interest income	-	-	-	-	523,691	523,691	
Reconciled to aggregate net surplus	-	-	-	-	-	1,826,083	
Other information							
Segment assets	1,150,565	7,665,750	4,503,116	2,190,155	16,136,042	31,645,628	
Segment liabilities	1,804,894	2,952,037	3,945,407	275,742	5,755,737	14,733,817	
Capital expenditure	240,087	733,152	916,441	323,099	672,245	2,885,024	
Non-cash expense excluding depreciation (included above)	-	(372,355)	(399,747)	-	(27,392)	(799,494)	
Non-cash revenue (included above)	-	-	32	-	23,775	23,807	

52. Events after the reporting period

There are no material non-adjusting events after the reporting date.

53. Reconciliation of actual amounts on a comparable basis and actual amounts in the financial statements for the 2018 financial year

IPSAS 24.47(a)

	Actual performance	Entity differences	Actual on comparable basis
	€ 000	€ 000	€ 000
Total revenue	23 777 457	7 275 422	16 502 035
Total expenditure	20 452 087	5 808 745	14 643 342
Net cash flows from operating activities	5 257 795	1 318 986	3 938 809
Cash flows used in investing activities	(4 928 205)	(699 695)	(4 228 510)
Cash flows used in financing activities	(152 186)	(13 223)	(138 963)

Commentary

IPSAS 24.47 requires a reconciliation between actual amounts reported in the financial statements and actual amounts converted to a comparable basis with the budget. Such reconciliation should explain any basis, timing and entity adjustments to the following amounts in the financial statements:

a) If the accrual basis is adopted for the budget, total revenues, total expenses and net cash flows from operating activities, investing activities and financing activities

b) If a basis other than the accrual basis is adopted for the budget, net cash flows from operating activities, investing activities and financing activities.

53. Reconciliation of actual amounts on a comparable basis and actual amounts in the financial statements for the 2018 financial year continued

53.1 Explanations of budget adjustments

It is the Group's policy to provide explanations for all material budget adjustments. To this end the Group has determined that any budget adjustment that exceeds 10% of the original budget must be explained.

Budget line item adjusted	Adjustment amount €000	Adjustment percentage	Explanation
Rendering of services	246 800	-49%	During the period severe storms halted the completion of a new power plant that was projected. As a result thereof, the projected / budgeted revenue from the sale of electricity from this plant was reduced.
Finance cost	33 503	-11%	Delays in the completion of the power plant resulted in a decreased rate of spending on the power plant. It was therefore projected that borrowing facilities would not be utilised to the full projected volumes. As a result, the budgeted finance cost was reduced to reflect the anticipated extent of utilisation of borrowing facilities.
Other expenses	540 000	52%	During the year indicators of potential impairment, resulting from damage to assets during a storm, were identified that were not taken into consideration during the preparation of the original budget. The budget was adjusted to include the original estimated impairment that may result from the damage.

53.2 Explanations for material variances

The Group's policy is to explain all material variances between budgeted and actual comparable performance. The Group's policy defines material variances as those variances that are equal to or greater than 10% of the final approved budget and equal to or greater than € 1 million.

53. Reconciliation of actual amounts on a comparable basis and actual amounts in the financial statements for the 2018 financial year continued

	Budget line item	Variance amount €000	Variance percentage €000	Explanation
53.2.1	Public contributions and donations	4 215	10%	Significant pledges made for the improvement of infrastructure in disadvantaged communities was withdrawn due to political in-fighting in four of the Group's districts and related civil disobedience in those districts. The Group is working closely with the district leaders to resolve the conflict and regain the confidence of the donors with the hopes in recovering the pledges in following financial years.
53.2.2	Rendering of services	278 903	22%	During the period severe storms caused significant damage to various assets that resulted in service disruptions. Furthermore, civil disobedience resulting from political in-fighting in four of the Group's districts caused significant service disruptions that reduced the revenue generated in those districts.
53.2.3	Goods and services	-760 732	-11%	During the period severe storms halted the completion of a new power plant and also caused significant damage to the power plant. Significant additional site and structure safety inspections and certifications had to be undertaken and significant restoration to the site was required. These additional costs were not included in the budget due to the unforeseen circumstances. Furthermore, the additional work was considered to amount to "abnormal losses" that does not qualify for recognition in the cost of the asset.
53.2.4	Other expenses	-222 178	-14%	During the period severe storms caused significant damage to various assets. Although the budget was adjusted for the initial estimated impairment loss, the actual impairment loss suffered was greater than initially anticipated.