

Local Council Marsaskala
Annual Audit Report
for the year ended 31 December 2020

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**Statement of Local Council Members' and Executive Secretary's Responsibilities
for the year ended 31 December 2020**

The Local Councils (Financial) Regulations require the Executive Secretary to prepare a detailed annual administrative report which includes a statement of comprehensive income for the year, and of the Council's retained funds at the end of year. By virtue of the same regulations it is the duty of the Local Council and the Executive Secretary to ensure that the financial statements forming part of the report present fairly, in accordance with the accounting policies applicable to Local Councils, the income and expenditure of the Local Council for the year and its retained funds as at the year end, and that they comply with the Act, the Local Council (Financial) Regulations, and the Local Council (Financial) Procedures issued in terms of the said Act.

The Executive Secretary is responsible to maintain a continuous internal control to ascertain that the accounting, recording and other financial operations are properly conducted in accordance with the Local Councils Act, Local Council (Financial) Regulations, and the Local Councils (Financial) Procedures. The Executive Secretary is also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This statement was approved by the Council on 12 July 2021 and signed on its behalf by:



Mario Calleja
Mayor



Josef Grech
Executive Secretary

**Statement of Comprehensive Income
for the year ended 31 December 2020**

	Notes	2020 €	2019 €
Revenue			
Funds received from Central Government	3	1,115,243	1,068,022
Income raised under Local Enforcement System	4	3,806	7,994
General Income	6	71,023	68,347
		<u>1,190,072</u>	<u>1,144,363</u>
Expenditure			
Personal Emoluments	7	(218,466)	(196,306)
Operations and maintenance	8	(609,588)	(522,420)
Administration and other expenditure	9	(259,898)	(252,810)
		<u>(1,087,952)</u>	<u>(971,536)</u>
Operating profit for the year		102,120	172,827
Finance income	5	1,014	1,589
Profit for the year		<u>103,134</u>	<u>174,416</u>

The notes on pages 8 to 27 form an integral part of these financial statements.

	Notes	2020 €	2019 €
ASSETS			
Non-Current Assets			
Property, plant and equipment	11	587,800	348,083
Intangible assets	10	600	894
		<u>588,400</u>	<u>348,977</u>
Current Assets			
Receivables	12	99,923	230,804
Cash and cash equivalents	13	1,004,910	1,128,290
		<u>1,104,833</u>	<u>1,359,094</u>
Total Assets		<u>1,693,233</u>	<u>1,708,071</u>
RESERVES			
Retained earnings		1,500,657	1,397,523
Total reserves		<u>1,500,657</u>	<u>1,397,523</u>
Current Liabilities			
Trade and other payables	14	192,576	310,548
		<u>192,576</u>	<u>310,548</u>
Total Liabilities		<u>192,576</u>	<u>310,548</u>
Total reserves and liabilities		<u>1,693,233</u>	<u>1,708,071</u>

These financial statements were approved by the Local Council on 12th July 2021 and signed on its behalf by:



Mario Calleja
Mayor



Josef Grech
Executive Secretary

The notes on pages 8 to 27 form an integral part of these financial statements.

**Statement of Changes in Equity
for the year ended 31 December 2020**

	Retained Funds	Total
	€	€
At 1 January 2019	1,223,107	1,223,107
Profit for the year	174,416	174,416
At 31 December 2019	1,397,523	1,397,523
At 1 January 2020	1,397,523	1,397,523
Profit for the year	103,134	103,134
At 31 December 2020	1,500,657	1,500,657

Statement of Cash Flows
for the year ended 31 December 2020

	2020		2019	
	€	€	€	€
Net profit for the year	103,134		174,416	
Reconciliation to cash generated from operations:				
Amortisation and Depreciation	78,157		82,149	
Loss on write offs of property, plant and equipment	-		1,467	
Movement in Provision for Doubtful Debts	(753)		(2,189)	
Interest receivable	(1,014)		(1,589)	
Operating surplus before working capital changes	179,524		254,254	
(Increase) in receivables	(46,884)		(23,870)	
(Increase) in other receivables	178,519		(10,187)	
(Decrease) in payables	(15,273)		23,587	
Increase in other payables	(145,980)		6,557	
Cash generated from operating activities		149,906		250,341
Cash flow from Investing activities				
Interest received	1,014		1,589	
Purchase of property, plant & equipment	(412,800)		(108,817)	
Grants received	138,500		40,180	
Cash (used in) investing activities		(273,286)		(67,048)
Net Increase in cash in the year		(123,380)		183,293
Cash and equivalents at beginning of year		1,128,290		944,997
Cash and equivalents at end of year	Note 13	1,004,910		1,128,290

1. General Information

The Marsaskala Local Council is the local authority of Malta set up in accordance with the Local Councils Act(1993). The office of the Local Council is situated at 228, Triq is-Salini, Marsaskala. These financial statements were approved for issue by the Council Members on 12 July 2021. The Local Council's company's presentation as well as functional currency is €.

2. Accounting Policies and Reporting Procedures

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Accounting convention

These financial statements are prepared under the historical cost convention, as modified to include fair values where it is stated in the accounting policies below. These financial statements are prepared in accordance with the provisions of the Local Councils Act Cap. 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996 enacted in Malta and with the requirements of the International Financial Reporting Standards.

These financial statements have been drawn up in accordance with the accounting policies and reporting procedures prescribed for Local Councils in the Financial Regulations issued by the Minister of Finance in conjunction with the Minister responsible for Local Government in terms of section 67 of the Local Councils Act (Cap. 363).

New and amended standards adopted by the Local Council

In the current year the Council has applied the below new and revised IFRS issued by IASB that is mandatory effective for financial year beginning 1st January 2019.

IFRS 9 Prepayment Features with Negative Compensation allow instruments with symmetric prepayment options to qualify for amortised cost or fair value through other comprehensive income measurement. Amendments to IFRS 9 is effective for financial periods beginning on, or after, 1 January 2019.

Annual improvements to IFRS Standards 2015-2017 are effective for financial periods beginning on, or after, 1 January 2019.

IFRS 16, 'Leases' - As from 1 January 2019, the council considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the council assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the council
- the council has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the council has the right to direct the use of the identified asset throughout the period of use. The council assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases

At lease commencement date, the council recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the council, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

New and amended standards adopted by the Local Council

In the current year the Council has applied the below new and revised IFRS issued by IASB that is mandatory effective for financial year beginning 1st January 2020.

IAS 1 and IAS 8 Definition of Material include amendments to its definition of material to make it easier for companies to make materiality judgements. IAS 1 and IAS 8 Definition of Material, will be effective for financial periods beginning on, or after, 1 January 2020.

Amendments to references to the Conceptual Framework in IFRS standards include some important issues which were not covered or were unclear or out of date. It contain a new chapter on measurement; guidance on reporting financial performance; improved definitions of an asset and a liability and clarifications in important areas. These amendments will be effective for financial periods beginning on, or after, 1 January 2020.

Amendments to IFRS 9, IAS 39 and IFRS 7 as a first reaction to the potential effects the IBOR reform could have on financial reporting. The amendments are effective for annual reporting periods beginning on or after 1 January 2020.

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Local Council.

Amendment to IFRS 16- amending the standard to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after 1 June 2020.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (phase 2) - amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments are effective for annual periods beginning on or after 1 January 2021.

Amendments to IAS 37 - amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

Annual Improvements to IFRS Standards 2018–2020. The pronouncement contains amendments to four International Financial Reporting Standards (IFRSs) as result of the IASB's annual improvements project. The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

Amendments to IAS 16, regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

Amendments to IAS 8 - to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual periods beginning on or after 1 January 2023.

Amendments to IAS 1 and IFRS Practice Statement 2 - amendment that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2023.

The Councillors are assessing the impact that the adoption of these International Financial Reporting Standards will have on the financial statements in the period of initial application. The Councillors anticipate that the adoption of other International Financial Reporting Standards that were in issue at the date of authorisation of these financial statements, but not yet effective will have no material impact on the financial statements in the period of initial application.

Intangible Fixed Assets

Computer software is valued at cost less accumulated amortisation and impairment losses to date. Depreciation to write off the cost is calculated on a monthly basis using the straight line method at 25% - 100% per annum.

Up to the year ended 31st December 2017, depreciation was calculated on a monthly basis using the reducing balance method at rates calculated to write off the cost less residual value of each asset over its expected useful life according to IAS 16 Property, Plant and Equipment. On 1st January 2018, the straight line method in line with IAS 16, has been adopted, in line with the Directive No.1/2017 issued by the Department for Local Government.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses to date. Depreciation is calculated on a monthly basis using the straight line method at rates calculated to write off the cost of each asset over its expected useful life as follows:

	%
Land	0
Trees	0
Buildings	1
Office Furniture and Fittings	7.5 - 100
Construction Works	10 - 100
Urban Improvements (Street Furniture)	10 - 100
Special Projects	10 - 100
Office Equipment	20 - 100
Motor Vehicles	20 - 100
Plant and Machinery	20 - 100
Computer Equipment	25 - 100
Plants	100
Litter Bins	Replacement Basis
Playground Furniture	100
Traffic Signs	Replacement Basis
Road Signs	Replacement Basis
Street Mirrors	Replacement Basis
Street Lights	100

Up to the year ended 31st December 2017, depreciation was calculated on a monthly basis using the reducing balance method at rates calculated to write off the cost less residual value of each asset over its expected useful life according to IAS 16 Property, Plant and Equipment. On 1st January 2018, the straight line method in line with IAS 16, has been adopted, in line with the Directive No.1/2017 issued by the Department for Local Government.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. The residual values and useful lives of the assets are reviewed and adjusted as appropriate, at each end of the reporting period. The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount.

Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Impairment of trade and other receivables

Trade and other assets are measured at fair value, with changes in fair value subsequently recognised in profit and loss. The Council applies the simplified approach for all trade receivables and contract assets. Accordingly, the assessment to determine whether there is a significant increase in credit risk is not applicable for such financial assets.

Where the Council does not have reasonable and supportable information that is available without undue cost or effort to measure life time expected credit loss on an individual instrument basis and in order to ensure the life time expected credit losses are recognised before an asset becomes credit-impaired or an actual default occurs, life time expected credit losses on the remaining financial assets are measured on a collective basis. In such instances and where appropriate, the financial instruments are grouped on the basis of shared credit risk characteristics and the life time expected credit losses are estimated using a provision matrix based on actual credit loss experience over past years, which is adjusted to reflect current conditions and the Council's view of economic conditions over the expected lives of the receivables.

Such adjustments are based on factors that are specific to the debtors and economic and industry indicators such as GDP, unemployment rates and/or industry projections, where applicable, unless the effect is considered to be immaterial.

The Council's trade receivables are of a short-term nature as they are based on credit terms of less than one year and, thus, do not include a significant financing component.

For the purpose of the provision matrix, loss rates are calculated using a 'roll rate' method based on the probability a receivable progressing through successive stages of delinquency over a selected period, taking into consideration the applicable credit terms for such debtors and the past due status. Unless the effect is immaterial, for receivables after 360 days, the loss rate was adjusted to take into consideration the proportion of actual recoveries over the selected period.

Impairment of cash and cash equivalents

Cash and cash equivalents are demand deposits, a 1-day probability of default has been applied, based on the respective external ratings of the counterparty banks and an adequate loss given default rate to the carrying amount at the measurement date.

The Council banks with local financial institutions with high quality standing and rating and management consider the probability of default to be close to zero.

Related parties

Related parties are those persons or bodies of persons having relationships with the Council as defined in International Accounting Standard No. 24

Revenue

Revenue is recognised when there are no significant uncertainties concerning the derivation of consideration or associated costs. Interest income is recognised in the profit or loss as it accrues.

Local Enforcement System

Up till August 2011, the Council used to manage the the Local Enforcement System in its locality and used to receive all the income generated from the fines. As from 1 September 2011, the Council started to form part of the Southern Region, which took over the management of Local Enforcement System and the Council is receiving a 10 % administration fee on every fine paid at the Council. As from October 2015 LESA took over the administration of the Local Enforcement System.

Government grants

Government grants relating to operating expenditure are recognized in the Statement of Comprehensive Income in the same period that the related expenditure is incurred.

Government grants relating to the purchase of property, plant and equipment are accounted for using the capital approach, and are thus deducted from the carrying amount of the relative non-current asset.

Up to the year ended 31st December 2017, government grants were accounted for using the income approach according to IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. On 1st January 2018, the capital approach, according to IAS 20, has been adopted, in line with the Directive No 1/2017 issued by the Department for Local Government.

Profits and losses

Only losses that were realised at the date of the statement of financial position are recognised in these financial statements. All foreseeable liabilities and potential losses arising up to the said date are accounted for even if they become apparent between the said date and the date on which the financial statements are approved.

Cash and equivalents

Cash and Cash Equivalents are carried in the statement of financial position. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and balances held with banks.

3. Funds received from central government

	2020	2019
	€	€
In terms of section 55 of the Local Council Act	1,007,701	945,635
Supplementary Government Income	34,269	54,835
Other Government Income	73,273	67,552
	<u>1,115,243</u>	<u>1,068,022</u>

4. Local Enforcement Income

	2020	2019
	€	€
Income from LES administration fees	4,028	8,203
Contraventions & other fines	(222)	(209)
	<u>3,806</u>	<u>7,994</u>

5. Investment Income

	2020	2019
	€	€
Bank Interest	1,014	1,589
	<u>1,014</u>	<u>1,589</u>

6. General Income

	2020	2019
	€	€
Community Services	-	420
General Income	125	133
Media Advertising	1,589	4,617
Donations	250	300
Contributions	-	64
Insurance Claims	-	94
Income from Permits	69,059	56,304
EU funding	-	6,415
	<u>71,023</u>	<u>68,347</u>

7. Personal Emoluments

	2020	2019
	€	€
Mayor's Allowance	15,027	13,690
Councillors' Allowance	22,600	16,900
Executive Secretary Salary and Allowances	36,577	35,533
Employees' Salaries	130,730	117,267
Social Security Contributions	13,532	12,916
	<u>218,466</u>	<u>196,306</u>

8. Operations and Maintenance

	2020	2019
	€	€
<i>Repairs and Upkeep:</i>		
Public Property	3,631	-
Road/Street Pavements	122,237	44,454
Signs	-	19,397
Road Markings	13,270	-
Office Furniture and Equipment	3,016	780
Plant & Equipment	931	714
Other repairs and Upkeep	21,042	43,007
Council Property	45	-
	<u>164,172</u>	<u>108,352</u>
<i>Contractual Services:</i>		
Waste Disposal	120,958	112,362
Refuse Collection	92,756	112,616
Bulky Refuse Collection	32,758	31,201
Hiring of Skips - Bins on Wheels	24,851	2,006
Road & Street Cleaning	60,709	50,622
Cleaning & Maintenance Non-Urban Roads	5,242	16,511
Cleaning - Public Conveniences	21,565	29,426
Cleaning - Council Premises	692	2,536
Cleaning & Maintenance Parks & Gardens	59,994	29,019
Street Lighting	25,701	27,366
Local Enforcement Expenses	190	403
	<u>445,416</u>	<u>414,068</u>
	<u>609,588</u>	<u>522,420</u>

9. Administration and other expenditure

	2020	2019
	€	€
Utilities	13,955	8,056
Uniforms	955	1,531
Sundry materials & supplies	31,190	26,975
Rent	25,320	23,400
European Organisations	-	350
Participation fee - Nat. Mtg.	88	1,528
Membership - Local Organisations	900	900
Printing	6,040	7,922
Stationery	1,454	2,011
Subscriptions	4,281	1,944
Couriers	-	868
Postages	289	367
Other Office Services	-	136
Transport	4,158	4,006
Travel	185	3,560
Information Services	4,298	17,060
Insurance Coverage	3,788	3,579
Bank Charges	431	240
IT Development Services	6,781	5,004
Legal services	883	2,596
Accountancy services	8,359	7,714
Professional services	3,185	30
Contracts' manager	17,308	
Medical services	3,185	
Other support services	16,160	14,225
Training	-	207
Entertainment	1,599	1,720
Other Hospitality Costs	2,200	2,982
Annual General Meeting	-	435
Social Events	14,566	23,379
Community Services	9,000	7,210
Sundry Minor Expenses	367	956
Provision for LES receivables	(753)	(6,447)
Penalty	1,350	1,467
Twining expenses	219	327
Bad debts written off	-	4,423
Amortisation and Depreciation	78,157	82,149
	<u>259,898</u>	<u>252,810</u>

10. Intangible fixed assets

	Computer Software	Total
	€	€
Cost		
At 1 January 2019	7,843	7,843
At 31 December 2019	<u>7,843</u>	<u>7,843</u>
Amortisation		
At 1 January 2019	6,470	6,470
Charge for year	479	479
At 31 December 2019	<u>6,949</u>	<u>6,949</u>
Net book values		
At 31 December 2019	<u>894</u>	<u>894</u>
Cost		
At 1 January 2020	7,843	7,843
Additions	118	118
At 31 December 2020	<u>7,961</u>	<u>7,961</u>
Amortisation		
At 1 January 2020	6,949	6,949
Charge for year	412	412
At 31 December 2020	<u>7,361</u>	<u>7,361</u>
Net book values		
At 31 December 2020	<u>600</u>	<u>600</u>

Notes to the Financial Statements
for the year ended 31 December 2020

1.1. Property, plant and equipment		Trees	Construction Works	New Street Signs	Urban Improvements	Plant, machinery & equipment	Office Furniture & fittings	Motor vehicles	Assets under construction	Total
		€	€	€	€	€	€	€	€	€
Cost										
At 1 January 2019		43,097	2,156,747	59,544	1,279,742	45,729	24,739	11,006	13,986	3,634,590
Additions		14,122	37,148	-	28,937	6,148	5,043	4,900	12,519	108,817
Disposals		-	-	-	-	(3,984)	(6,610)	-	-	(10,594)
At 31 December 2019		57,219	2,193,895	59,544	1,308,679	47,893	23,172	15,906	26,505	3,732,813
Grants										
At 1 January 2019		-	602,466	-	935,940	16,766	-	-	-	1,555,172
Grants for the year		14,122	-	-	26,058	-	-	-	-	40,180
		14,122	602,466	-	961,998	16,766	-	-	-	1,595,352
Depreciation										
At 1 January 2019		-	1,347,789	59,544	260,727	21,052	16,717	11,006	-	1,716,835
On disposal		-	-	-	-	(3,852)	(5,275)	-	-	(9,127)
Charge for the year		-	59,295	-	17,605	2,896	1,302	572	-	81,670
At 31 December 2019		-	1,407,084	59,544	278,332	20,096	12,744	11,578	-	1,789,378
Net book values										
At 31 December 2019		43,097	184,345	-	68,349	11,031	10,428	4,328	26,505	348,083

Notes to the Financial Statements
for the year ended 31 December 2020

1.1. Property, plant and equipment		Trees	Construction Works	New Street Signs	Urban Improvements	Plant, machinery & equipment	Office Furniture & fittings	Motor vehicles	Assets under construction	Total
		€	€	€	€	€	€	€	€	€
Cost										
	At 1 January 2020	57,219	2,193,895	59,544	1,308,679	47,893	23,172	15,906	26,505	3,732,813
	Additions	-	56,551	-	14,725	2,618	109	-	338,679	412,682
	Disposals	-	-	-	-	-	760	-	-	(760)
	At 31 December 2020	57,219	2,250,446	59,544	1,323,404	50,511	22,521	15,906	365,184	4,144,735
Grants										
	At 1 January 2020	14,122	602,466	-	961,998	16,766	-	-	-	1,595,352
	Grants for the year	-	-	-	-	-	-	-	138,750	138,750
	Deducted of grant	-	-	-	(44,291)	-	-	-	-	(44,291)
	At 31 December 2020	14,122	602,466	-	917,707	16,766	-	-	138,750	1,689,811
Depreciation										
	At 1 January 2020	-	1,407,084	59,544	278,332	20,096	12,744	11,578	-	1,789,378
	Reclassification	-	746	-	744	(2)	-	-	-	-
	Charge for the year	-	53,138	-	18,847	3,378	1,403	980	-	77,746
	At 31 December 2020	-	1,460,968	59,544	296,435	23,472	14,147	12,558	-	1,867,124
Net book values										
	At 31 December 2020	43,097	187,012	-	109,262	10,273	8,374	3,348	226,434	587,800

12. Receivables

	2020	2019
	€	€
Receivables	84,251	37,367
Other receivables	2,283	5,767
Accrued income	5,600	178,301
Financial assets	<u>92,134</u>	<u>221,435</u>
Prepayments	7,789	9,369
	<u>99,923</u>	<u>230,804</u>

Receivables

General receivables are analysed as follows:

	2020	2019
	€	€
Within credit period	9,769	5,400
Exceeded credit period but not impaired	74,482	31,967
	<u>84,251</u>	<u>37,367</u>

Receivables are stated after a specific provision for bad debts amounting to € 0 (2019 : € 0).

LES Debtors

LES debtors are stated after a specific provision for doubtful debts amounting to € 330,089 (2019: € 330,842).

Other receivables

	2020	2019
	€	€
Exceeded credit period but not impaired	<u>2,282</u>	<u>5,767</u>

Other receivables are stated after a provision for doubtful debts amounting to € 0 (2019 : € 0).

The movement in the provision for doubtful debts is as follows:

	2020	2019
	€	€
Balance at 1 January	330,842	337,288
(Decrease) in provision for LES Debtors	(753)	(2,188)
(Decrease) in provision for receivables	-	4,258
Balance at 31 December	<u>330,089</u>	<u>330,842</u>

13. Cash and equivalents

	2020	2019
	€	€
Bank Balances	1,004,511	1,127,943
Cash in Hand	399	347
	<u>1,004,910</u>	<u>1,128,290</u>

14. Payables

	2020	2019
	€	€
Payables	121,689	136,962
Other creditors	1,093	139,211
Accruals	54,847	32,933
Financial Liabilities	<u>177,629</u>	<u>309,106</u>
Deferred income	14,947	1,442
	<u>192,576</u>	<u>310,548</u>

15. Capital commitments

	2020	2019
	€	€
Details of capital commitments at the accounting date are as follows:		
Approved but not yet contracted for	629,000	2,000
Contracted for but not provided in the financial statements	234,556	559,567
These could be analysed as follows:		
<i>(i) Approved but not yet contracted for:</i>		
Office equipment	302,000	1,000
Motor Vehicle	20,000	-
Office furniture & fittings	307,000	1,000
	<u>629,000</u>	<u>2,000</u>
<i>(ii) Contracted for but not provided in the Financial Statements:</i>		
Construction	<u>234,556</u>	<u>559,567</u>

16. Related party transactions

During the year under review, the Council carried out transactions with the following related parties:

<i>Name of Entity</i>	<i>Nature of relationship</i>
Department of Local Government	Significant control
Regional Committee (Local Enforcement)	Joint control
Fgura Joint Committee (Local Enforcement)	Joint control
Local Enforcement System Agency	No control
Gozo Regional Committee	No control
North Regional Committee	No control
South Regional Committee	No control
South Eastern Regional Committee	No control
Central Regional Committee	No control
Public General Head Quarters	No control
Local Councils' Association	No control
Malta Information Technology Agency	No control
Malta Communication Authority	No control
Malta Tourism Authority	No control
Malta Transport Authority	No control
Department of Lands	No control
Department of Inland Revenue	No control
Permanent Secretary - Ministry of Education	No control
Permanent Secretary - Ministry for Family & Social Solidarity	No control
Bank of Valletta plc	No control
Airmalta plc	No control
Jobs plus	No control
Arms Limited	No control
Planning Authority	No control
Environment and Resources Authority	No control
Water Services Corporation	No control
Enemalta Corporation	No control
Cleansing Services Department	No control
Director General - Works Division	No control
Wasteserv Malta Limited	No control
Commissioner for Data Protection	No control

The following were the significant transactions carried out by the Council with related parties having significant control:

	2020	2019
	€	€
Annual Financial Allocation	<u>1,007,701</u>	<u>945,635</u>

Key management compensation

Transactions with key management personnel are disclosed in note 8.

17. Financial Risk Management

The exposure to risk and the way risks arise, together with the Local Council's objectives, policies and processes for managing and measuring these risks are disclosed in more detail below.

The objectives, policies and processes for managing financial risks and the methods used to measure such risks are subject to continual improvement and development.

Where applicable, any significant changes in the Local Council's exposure to financial risks or manner in which the council manages and measures these risks are disclosed below.

Where possible, the Local Council aims to reduce and control risk concentrations. Concentrations of financial risk arise when financial instruments with similar characteristics are influenced in the same way by changes in economic or other factors. The amount of the risk exposure associated with financial instruments sharing similar characteristics is disclosed in more detail in the notes to the financial statements.

<i>Categories of financial instruments</i>	2020	2019
	€	€
<i>Financial assets</i>		
<i>Loans and Receivables</i>		
Cash and bank balances	1,004,910	1,128,290
Receivables	92,134	221,435
	<u>1,097,044</u>	<u>1,349,725</u>
<i>Financial liabilities</i>		
Trade payables and other payables	177,629	309,106
	<u>177,629</u>	<u>309,106</u>

The Council is exposed to credit risk and liquidity risk through its use of financial instruments which result from its operating activities. The Council is not exposed to any market risk. The Council's risk management is coordinated by the Council members and focuses on actively securing the Council's short to medium term cash flows by minimising the exposure to financial risks.

The most significant financial risks to which the Council is exposed are described below.

Credit risk

Financial assets which potentially subject the Council to concentration of credit risk are principally made of cash at bank and debtors. The Council's cash is placed with quality financial institutions.

The Council applies the simplified approach for all trade receivables and contract assets which uses a lifetime expected allowance. Accordingly, the assessment to determine whether there is a significant increase in credit risk is not applicable for such financial assets.

Where the Council does not have reasonable and supportable information that is available without undue cost or effort to measure life time expected credit loss on an individual instrument basis and in order to ensure the life time expected credit losses are recognised before and asset becomes credit-impaired or an actual default occurs, life time expected credit losses on the remaining financial assets are measured on a collective basis. In such instances and where appropriate, the financial instruments are grouped on the basis of shared credit risk characteristics and the life time expected credit losses are estimated using a provision matrix based on actual credit loss experience over past years, which is adjusted to reflect current conditions and the Council's view of economic conditions over the expected lives of the receivables

Such adjustments are based on factors that are specific to the debtors and economic and industry indicators such as GDP, unemployment rates and/or industry projections, where applicable, unless the effect is considered to be immaterial.

The Council's trade receivables are of a short-term nature as they are based on credit terms of less than one year and, thus, do not include a significant financing component.

For the purpose of the provision matrix, loss rates are calculated using a 'roll rate' method based on the probability a receivable progressing through successive stages of delinquency over a selected period, taking into consideration the applicable credit terms for such debtors and the past due status. Unless the effect is immaterial, for receivables after 360 days, the loss rate was adjusted to take into consideration the proportion of actual recoveries over the selected period.

As at 31 December 2020, trade receivables of € 74,482 (2019 : € 31,967) were past due but not impaired. The ageing of these past due trade receivables was over 1 month. These mainly related to a number of government entities for whom there is no recent history of default and exposure is very limited. Whilst a number of customers account for a certain percentage of the Council's past due trade debts, management has not identified any major concerns with respect to concentration of credit risk. Categorisation of trade receivables as past due is determined by the Council on the basis of the nature of the credit terms in place and credit arrangements actually utilised in managing exposures with customers. Exposure is immaterial.

Previous accounting policy for impairment of trade and other receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment has been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment.

The Council considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or late payments

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

Cash and cash equivalents

The Council banks only with local financial institution with high quality standing or rating. At 31 December 2020, cash and cash equivalents are held with counterparty with a credit rating of BBB and are callable on demand. Council consider the probability of default to be close to zero as the counterparty has a strong capacity to meet its contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Council.

Liquidity risk

The Council is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise trade and other payables. Prudent liquidity risk management includes maintaining sufficient cash to ensure the availability of an adequate amount of funding to meet the Council's obligations.

Management monitors liquidity risk by reviewing expected cash flows and ensures that no additional financing facilities are expected to be required over the coming year. The Council manages its liquidity needs through yearly budgets and business plans by carefully monitoring expected cash inflows and outflows on a daily basis. At the end of the reporting period, the Local Council's net asset position amounted to € 912,257 (2019: € 1,048,546) view of the matching of cash inflows and outflows arising from expected maturities of financial instruments. In this respect management does not consider liquidity risk to the Council as significant taking into account the liquidity management process referred to above.

The following table analyses the Council's financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2020 to the contractual maturity date. The amounts disclosed below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Current		Non- Current		Total
	Payable within 1 year	Payable withing 1 & 2 years	Payable within 2 & 5 years	Payable after more than 5 years	
	€	€	€	€	€
31 December 2020					
Payables	121,689	-	-	-	121,689
Other payables	1,093	-	-	-	1,093
Accruals	54,847	-	-	-	54,847
	<u>177,629</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>177,629</u>
31 December 2019					
Payables	136,962	-	-	-	136,962
Other payables	139,211	-	-	-	139,211
Accruals	32,933	-	-	-	32,933
	<u>309,106</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>309,106</u>

With respect to the maturity of the Council's financial liabilities as at 31 December 2020, the Council disclose that the trade and other payables are entirely repayable within one year from the end of the respective reporting period.

18. Fair values estimation

The nominal values less estimated credit adjustments of receivables and payables are assumed to approximate their fair values, otherwise, these have been adjusted to approximate their fair values.