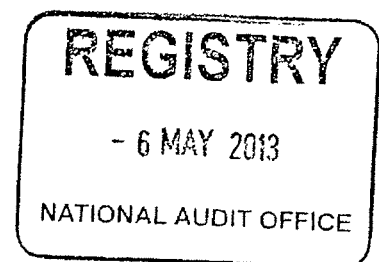


Valletta Local Council

Report & Financial Statements

31 December 2012



Prepared by Grant Thornton on behalf of Valletta Local Council

Valletta Local Council
Report and financial statements
For the year ended 31 December 2012

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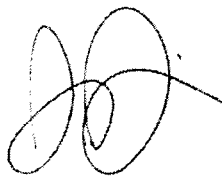
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Statement of Local Council Members' and Executive Secretary's Responsibilities

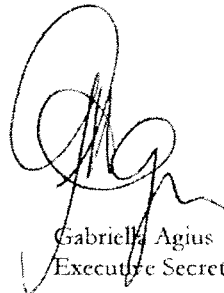
The Local Councils (Financial) Regulations require the Executive Secretary to prepare a detailed annual administrative report which includes the Local Council's Statement of Comprehensive Income for the year, and of the Council's retained funds at the end of year. By virtue of the same regulations it 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 Local Council and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This statement was approved by the council on 24 April 2013 and signed on its behalf by:



Dr. Alexiei Dingli
Mayor



Gabriella Agius
Executive Secretary

LOCAL COUNCIL VALLETTA

Report of the Local Government Auditors to the Auditor General

We have audited the accompanying financial statements of LOCAL COUNCIL VALLETTA, which comprise the statement of financial position on page 5 as of 31st December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Council's Responsibility for the Financial Statements

The Council Members and the Executive Secretary are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council Members and the Executive Secretary, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

The Council did not provide us with a fixed asset register in relation to fixed assets acquired by it. Due to this reason, we could not perform practical satisfactory audit procedures to obtain reasonable assurance on the existence and completeness of the opening balance of fixed assets recorded in the financial statements, having a net book value of € 1,077,140, as well as on the completeness of the depreciation charged thereupon.

As at 31st December 2012, the Council has recognised LES amount due from other Local Councils of €7,615 and LES due from Local Councils Association amounting to €7,923. The information and evidence provided by the Council with respect to these receivables was not sufficient for us to obtain reasonable assurance to determine whether such receivables are not materially misstated.

Throughout our testing of the trade payables of the Council, which amount to €358,604, we encountered a significant number of misstatements arising out of the lack of proper accounting and recording of payables, including accruals. The Council has also written off from its books payables balances amounting to €51,392 without proper legal advice. In this respect, we could not obtain

reasonable assurance that the trade payables being recorded in the financial statements are not materially misstated.

In the statement of comprehensive income for the year ended 2012, the Council recognized €36,278 classified as other income, €42,917 as contraventions income and €88,036 as grants released to income. The information and evidence provided by the Council with respect to these items of income was not sufficient for us to determine whether such income recognised in the financial statements is not materially misstated.

As of 31 December 2012, the Council's statement of financial position shows a net current liability position of €95,000, when the Council should maintain a positive working capital balance as is required by the Local Councils Procedures. The financial statements in their entirety further suggest that the going concern assumption used in the preparation of these financial statements is dependent on further sources of funds other than the annual financial allocation received by Central Government; on the collection of debts due to the Council and on the continued support of the Council's creditors. Any adverse change in either of these assumptions would not allow the Council to be able to meet its financial obligations as they fall due without curtailing its future commitments.

Qualified Opinion

In our opinion, except for the effect on the financial statements of the matters referred to in the Basis for Qualified Opinion paragraphs, the financial statements give a true and fair view of the financial position of Local Council Valletta as at 31st December, 2012, and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards

Opinion on Other Legal and Regulatory Requirements

These financial statements do not comply fully with the Local Council (Financial) Procedures, 1996.

According to the Financial Procedures supplementing the Financial Regulations issued in terms with the Local Councils Act 1993, the financial statements should include the budget for the year. In line with Local Councils' generally accepted reporting procedures, the budget has been excluded from these financial statements.

According to memo 37/2002, Legal Notices 323 and 324 of 2002, the Council should have a net current asset value (as adjusted in line with the guidelines) of not less than 10% of the annual financial allocation. As of 31 December 2012, the Council's minimum net current asset value (after certain adjustments) should have amounted to at least €45,906 being 10% of the annual allocation. Nonetheless, the actual financial indicator at 31st December 2012 stood at a negative 2.96%.

This copy of the report has been signed by
Clive Farrugia (Partner) on its behalf

3a
Certified Public Accountants
Level 2
Palazzo Ca' Brugnera
Valley Road
Birkirkara BKR9024
Malta

Date: 24th April 2013

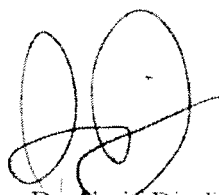
Statement of comprehensive income

| | Notes | 2012 € | 2011 € |
|--|-------|------------------------|----------------------|
| Revenue | | | |
| Funds received from Central Government | 3 | 721,926 | 699,000 |
| Income raised under Local Enforcement System | 4 | 2,951 | 380,654 |
| General Income | 5 | 267,141 | 126,644 |
| | | <u>992,018</u> | <u>1,206,298</u> |
| Expenditure | | | |
| Personnel emoluments | 6 | (125,882) | (110,021) |
| Operations and maintenance | 7 | (418,342) | (618,514) |
| Administration and other expenditure | 8 | (477,969) | (453,589) |
| | | <u>(1,022,193)</u> | <u>(1,182,124)</u> |
| Operating (loss) profit for the year | | (30,175) | 24,174 |
| Finance income | 9 | 326 | 680 |
| Finance costs | 9 | (48) | - |
| (Loss) profit for the year | | <u>(29,897)</u> | <u>24,854</u> |

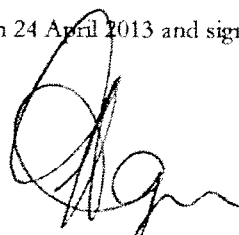
Statement of financial position

| | Notes | 2012 € | 2011 € |
|---------------------------------------|-------|------------------|------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 11 | 1,077,140 | 886,632 |
| Intangible assets | 10 | 219 | 268 |
| | | <u>1,077,359</u> | <u>886,900</u> |
| Current assets | | | |
| Receivables | 12 | 260,134 | 542,307 |
| Cash and cash equivalents | 13 | 134,578 | 148,633 |
| | | <u>394,712</u> | <u>690,940</u> |
| Total assets | | <u>1,472,071</u> | <u>1,577,840</u> |
| Reserves | | | |
| Retained earnings | | <u>805,806</u> | <u>835,703</u> |
| Liabilities | | | |
| Non-current liabilities | | | |
| Deferred income | 14 | <u>176,553</u> | <u>199,349</u> |
| Current liabilities | | | |
| Trade and other payables | 14 | <u>489,712</u> | <u>542,788</u> |
| Total liabilities | | <u>666,265</u> | <u>742,137</u> |
| Total reserves and liabilities | | <u>1,472,071</u> | <u>1,577,840</u> |

These financial statements were approved by the Local Council on 24 April 2013 and signed on its behalf by:



Dr. Alessia Dingli
 Mayor



Gabriella Agius
 Executive Secretary

The notes on pages 8 to 22 form an integral part of these financial statements.

Statement of changes in equity

| | Retained funds € |
|---------------------|------------------------|
| At 1 January 2011 | 810,849 |
| Profit for the year | 24,854 |
| At 31 December 2011 | <u>835,703</u> |
| At 1 January 2012 | 835,703 |
| Loss for the year | <u>(29,897)</u> |
| At 31 December 2012 | <u>805,806</u> |

Statement of cash flows

| | 2012 | 2011 |
|---|------------------|------------------|
| | € | € |
| Cash flow from operating activities | | |
| (Loss) profit for the year | (29,897) | 24,854 |
| Depreciation | 76,602 | 52,271 |
| Amortisation | 49 | 134 |
| Movement in provision for doubtful debts | 34,588 | 64,552 |
| Interest receivable | (326) | (680) |
| Interest payable | 48 | - |
| Operating profit before working capital changes | 81,064 | 141,131 |
| Decrease in inventories | - | 1,281 |
| Decrease (increase) in receivables | 247,585 | (315,961) |
| (Decrease) increase in other payables | (43,908) | 56,759 |
| Government grant released | (97,820) | (58,167) |
| Cash generated from (used in) operating activities | 105,857 | (316,088) |
| Cash flows from investing activities | | |
| Interest received | 326 | 680 |
| Purchase of property, plant and equipment | (267,110) | (348,093) |
| Receipt of grant | 65,856 | 310,845 |
| Cash used in investing activities | (200,928) | (36,568) |
| Cash flows from financing activities | | |
| Interest paid | (48) | - |
| Net decrease in cash and cash equivalents | (14,055) | (211,525) |
| Cash and equivalents at beginning of year | 148,633 | 360,158 |
| Cash and equivalents at end of year | 134,578 | 148,633 |

Notes to the financial statements

1 General information

The Valletta Local Council is the local authority of Malta set up in accordance with the Local Councils Act (1993). The office of the council is situated at 31, South Street, Valletta. These financial statements were approved for issue by the council members on 24 April 2013. The council's financial statements are presented in euro which is the functional currency of the council.

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 except as disclosed 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 International Financial Reporting Standards as adopted by the European Union.

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).

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the council

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the council.

Council members anticipate that all of the relevant pronouncements will be adopted in the council's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the council's financial statements is provided below. Certain other new standards and interpretations have been issued but are not relevant and therefore are not expected to have a material impact on the council's financial statements.

Annual Improvements 2009-2011 (the Annual Improvements)

The Annual Improvements 2009-2011 (the Annual Improvements) made several minor amendments to a number of IFRSs. None of the amendments made is relevant to the council's operations and therefore there is no impact on the current or prior year's financial statements.

IFRS 9 Financial Instruments (effective from 1 January 2015)

The IASB aims to replace *IAS 39 Financial Instruments: Recognition and Measurement* in its entirety. IFRS 9 is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2015. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Council members have yet to assess the impact that this amendment is likely to have on the financial statements of the council. However, they do not expect to implement the amendments until all chapters of IFRS 9 have been published and the standard has been adopted by the European Union.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The Amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities in the following two areas:

- the meaning of 'currently has a legally enforceable right of set-off'
- that some gross settlement systems may be considered equivalent to net settlement.

The Amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively. The council members do not anticipate a material impact on the council's financial statements from these amendments.

Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)

Qualitative and quantitative disclosures have been added to IFRS 7 'Financial Instruments: Disclosures' (IFRS 7) relating to gross and net amounts of recognised financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position. The amendments are effective for annual reporting periods beginning on or after 1 January 2013 and interim periods within those annual periods. The required disclosures should be provided retrospectively. The council members do not anticipate a material impact on the council's financial statements from these amendments.

Intangible fixed assets

Computer software is valued at cost less accumulated depreciation and impairment losses to date. Amortisation to write off the cost is calculated on a monthly basis using the reducing balance method at 20% per annum.

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 reducing balance method at rates calculated to write down the cost less residual value of each asset over its expected useful life as follows:

| | % |
|---------------------------------------|-------------------|
| Land | - |
| Trees | - |
| Buildings | 1 |
| Office furniture and fittings | 7.5 |
| Construction works | 10 |
| Urban improvements (Street furniture) | 10 |
| Special projects | 10 |
| Office equipment | 20 |
| Motor vehicles | 20 |
| Plant and machinery | 20 |
| Computer equipment | 25 |
| Plants | 100 |
| Litter bins | replacement basis |
| Playground furniture | 100 |
| Road signs | replacement basis |
| Street mirrors | replacement basis |
| Street lights | 100 |
| Traffic signs | replacement basis |

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 financial reporting date. 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 assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the asset less costs to sell and the value in use. Impairment losses are immediately recognised as an expense in the statement of comprehensive income.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Amounts receivable

Amounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of amounts receivable is established when there is objective evidence that the council will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Statement of comprehensive income.

Related parties

Related parties are those persons or bodies of persons having relationships with the council as defined in IAS 24. See note 17 for a list of related parties with which the council carried out transactions during the year under review.

Revenue

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

Income from Central Government is not recognised until there is a reasonable assurance that the council will comply with any conditions attached to it, and that the income will be received. The received income is to be recorded gross and any deductions made for non compliance are to be disclosed separately with expenses.

LES income

LES income is accounted for in the statement of comprehensive income as it accrues.

Government grants

Government grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred Government grants and are credited to the statement of comprehensive income over the expected lives of the related assets.

Profit and losses

Only profits 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

In the statement of financial position and the statement of cash flows, cash and cash equivalents comprise cash in hand and at bank.

Financial instruments

Financial assets and financial liabilities are recognised when the council becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs. They are measured subsequently as described below.

Financial assets

For the purpose of subsequent measurement, financial assets of the council are classified into loans and receivables upon initial recognition.

Receivables are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to loans and receivables are presented within 'finance income' or 'finance costs', except for impairment of receivables which is presented within 'administration and other expenditure'.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The council's other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics. The percentage of the write down is then based on recent historical counterparty default rates for each identified group.

Financial liabilities

The council's financial liabilities include other payables. These are stated at their nominal amount which is a reasonable approximation of fair value.

All interest-related charges are included within 'finance costs'.

Capital management policies and procedures

The council's capital consists of its net assets, including working capital, represented by its retained funds. The council's management objectives are to ensure:

- that the council's ability to continue as a going concern is still valid and
- that the council maintains a positive working capital rate.

To achieve the above, the council carries out a quarterly review of the working capital ratio ('Financial Situation Indicator'). This ratio was negative at the reporting date and the council is working to improve the situation. The council also uses budgets and business plans to set its strategy to optimise its use of available funds and implement its commitments to the locality.

Significant judgements, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires council members to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Use of available information and application of judgement are inherent in making estimates. Actual results in future could differ from such estimates and the differences may be material to the financial statements. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

In the opinion of the council members, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of LAS 1 (revised).

3 Funds received from Central Government

| | 2012 | 2011 |
|--|----------------|----------------|
| | € | € |
| In terms of section 55 of the Local Councils Act | 689,226 | 664,863 |
| Other Government income | 32,700 | 34,137 |
| | <u>721,926</u> | <u>699,000</u> |

4 Local enforcement income

| | 2012 | 2011 |
|---|--------------|----------------|
| | € | € |
| Contraventions and other fines | 42,917 | 347,525 |
| Sentenced cases - accrued income | (51,663) | 33,129 |
| Administrative charges to regional committees | 11,697 | - |
| | <u>2,951</u> | <u>380,654</u> |

5 General income

| | 2012 | 2011 |
|--------------------------------------|----------------|----------------|
| | € | € |
| CVA income | 25,800 | 9,810 |
| Tender documents/Info. Charges | 8,465 | 675 |
| Contributions | 8,157 | (16,313) |
| Refund of expenses | - | 1,260 |
| Science in the city | 2,250 | - |
| Grant released | 75,478 | 58,167 |
| Grant released – PPP scheme | 8,264 | - |
| Grant released – Mattia Preti Square | 4,294 | - |
| M Learn conference project | - | 8,614 |
| Creditors written back | 51,392 | - |
| Income from permits | 42,326 | 61,166 |
| Other income | 40,715 | 3,265 |
| | <u>267,141</u> | <u>126,644</u> |

6 Personnel emoluments

| | 2012 | 2011 |
|--|----------------|----------------|
| | € | € |
| Mayor's allowance | 11,146 | 11,146 |
| Councillors' allowances | 7,200 | 7,200 |
| Executive secretary salary and allowance | 29,023 | 32,545 |
| Employees' salaries | 71,940 | 53,862 |
| Social security contributions | 6,573 | 5,268 |
| | <u>125,882</u> | <u>110,021</u> |

7 Operations and maintenance

| | 2012 | 2011 |
|---|-----------------------|-----------------------|
| | € | € |
| Repairs and upkeep: | | |
| Road/street pavements | 21,583 | 12,974 |
| Signs | 17,251 | 18,662 |
| Road markings | 4,772 | 10,846 |
| Office furniture and equipment | 3,331 | 1,910 |
| Plant and equipment | - | 30 |
| Sundry repairs | 2,552 | 1,195 |
| Council property | 2,194 | 1,076 |
| | <u>51,683</u> | <u>46,693</u> |
| Contractual Services: | | |
| Refuse collection | 92,731 | 92,731 |
| Bulky refuse collection | 13,760 | 13,420 |
| Tippling fees | 42,390 | 42,390 |
| Road and street cleaning | 152,240 | 147,311 |
| Cleaning - public conveniences | 18,152 | 23,837 |
| Cleaning - council premises | 2,493 | 2,107 |
| Cleaning and maintenance - parks & gardens | 32,626 | 50,346 |
| Local Enforcement expenses | 12,267 | 199,679 |
| | <u>366,659</u> | <u>571,821</u> |
| Total operations and maintenance costs | <u>418,342</u> | <u>618,514</u> |

8 Administration and other expenditure

| | 2012 | 2011 |
|--|----------------|----------------|
| | € | € |
| Utilities | 23,063 | 27,535 |
| Other repairs and upkeep | 2,360 | 1,876 |
| Rent | (293) | 3,576 |
| Membership fees | 775 | 275 |
| Participation fees – International meeting | 2,100 | 900 |
| Participation fees – National meeting | 122 | - |
| Hero project | - | 5,009 |
| M Learn Conference project | - | 7,495 |
| Youth democracy project | - | 8,119 |
| Surch project | - | 860 |
| Works at Housing Authority blocks | 75,478 | 58,157 |
| EU Youth project | - | 9,181 |
| Science in the city | 3,020 | - |
| Office services | 14,150 | 26,843 |
| Transport | 5,409 | 7,038 |
| Travel | 27,007 | 21,631 |
| Information services | 25,880 | 28,488 |
| Insurance coverage | 4,406 | 971 |
| Bank charges | 1,041 | 1,223 |
| Professional services | 62,688 | 31,554 |
| Training | 207 | - |
| Conference expenses | - | 661 |
| Visits – foreign delegations | - | 12,289 |
| Other hospitality costs | 5,276 | 2,981 |
| Social events | 20,490 | 9,387 |
| Cultural events | 57,631 | 53,467 |
| Community services | 12,311 | 6,624 |
| Leasing of equipment | 2,627 | 201 |
| Sundry expenses | 418 | 1,644 |
| Increase in provision for bad debts | 34,588 | 64,552 |
| Amounts written off (note) | 20,564 | 2,423 |
| Penalties | - | 6,224 |
| Depreciation | 76,602 | 52,271 |
| Amortisation | 49 | 134 |
| | <u>477,969</u> | <u>453,589</u> |

Note:

| | 2012 | 2011 |
|---|---------------|--------------|
| | € | € |
| Housing Authority Grant | 11,710 | - |
| Accrued income from Local Council Department | 8,614 | - |
| Accrued income for 2012 activities not to be received | 240 | - |
| Accrued income for 'Special Needs Scheme 2010' | - | 2,322 |
| Income for Hero project not to be received | - | 3,320 |
| Funds for public convenience not to be received | - | (4,500) |
| Inventory written off | - | 1,281 |
| | <u>20,564</u> | <u>2,423</u> |

9 Finance income and finance cost

The following amounts have been included in the statement of comprehensive income line for the reporting periods presented:

| | 2012 € | 2011 € |
|------------------------------------|------------|------------|
| Bank interest receivable | <u>326</u> | <u>680</u> |
| Finance income | <u>326</u> | <u>680</u> |
| | | |
| Interest expense on bank overdraft | <u>48</u> | <u>-</u> |
| Finance cost | <u>48</u> | <u>-</u> |

10 Intangible fixed asset

| | Computer software € |
|--|---------------------------|
| Gross carrying amount | |
| Balance at 1 January and 31 December 2012 | <u>2,598</u> |
| Amortisation | |
| Balance at 1 January 2012 | 2,330 |
| Amortisation for the year | <u>49</u> |
| Balance at 31 December 2012 | <u>2,379</u> |
| Carrying amount at 31 December 2012 | <u>219</u> |
| | |
| Gross carrying amount | |
| Balance at 1 January and 31 December 2011 | <u>2,598</u> |
| Amortisation | |
| Balance at 1 January 2011 | 2,196 |
| Amortisation for the year | <u>134</u> |
| Balance at 31 December 2011 | <u>2,330</u> |
| Carrying amount at 31 December 2011 | <u>268</u> |

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11 Property, plant and equipment

| | Property € | Motor Vehicles € | Assets under construction € | New street signs € | Urban Improvements € | Plant, machinery & equipment € | Office furniture & fittings € | Special programmes € | Total € |
|--|---------------|------------------------|-----------------------------------|--------------------------|----------------------------|--|--|----------------------------|------------|
| Gross carrying amount | | | | | | | | | |
| Balance as at 1 January 2011 | - | - | 48,985 | 8,900 | 847,719 | 34,332 | 35,846 | 194,601 | 1,170,383 |
| Additions | - | - | 322,690 | - | 21,164 | 2,641 | 1,598 | - | 348,093 |
| Balance as at 31 December 2011 | - | - | 371,675 | 8,900 | 868,883 | 36,973 | 37,444 | 194,601 | 1,518,476 |
| Depreciation | | | | | | | | | |
| Balance as at 1 January 2011 | - | - | - | 8,900 | 344,085 | 18,119 | 13,868 | 194,601 | 579,573 |
| Depreciation for the year | - | - | - | - | 49,322 | 1,288 | 1,661 | - | 52,271 |
| Balance as at 31 December 2011 | - | - | - | 8,900 | 393,407 | 19,407 | 15,529 | 194,601 | 631,844 |
| Carrying amount as at 31 December 2011 | - | - | 371,675 | - | 475,476 | 17,566 | 21,915 | - | 886,632 |
| Gross carrying amount | | | | | | | | | |
| Balance as at 1 January 2012 | - | - | 371,675 | 8,900 | 868,883 | 36,973 | 37,444 | 194,601 | 1,518,476 |
| Additions | - | 8,000 | 203,139 | - | 46,881 | 6,086 | 3,004 | - | 267,110 |
| Reclassification | - | - | (434,403) | - | 434,403 | - | - | - | - |
| Balance as at 31 December 2012 | - | 8,000 | 140,411 | 8,900 | 1,350,167 | 43,059 | 40,448 | 194,601 | 1,785,586 |
| Depreciation | | | | | | | | | |
| Balance as at 1 January 2012 | - | - | - | 8,900 | 393,407 | 19,407 | 15,529 | 194,601 | 631,844 |
| Depreciation for the year | - | 1,006 | - | - | 70,000 | 3,878 | 1,718 | - | 76,602 |
| Balance as at 31 December 2012 | - | 1,006 | - | 8,900 | 463,407 | 23,285 | 17,247 | 194,601 | 708,446 |
| Carrying amount as at 31 December 2012 | - | 6,994 | 140,411 | - | 886,760 | 19,774 | 23,201 | - | 1,077,140 |

12 Receivables

| | 2012 | 2011 |
|-------------------------------|----------------|----------------|
| | € | € |
| Receivables | 35,131 | - |
| LES Debtors | 45,047 | 135,611 |
| Other receivables | 13,791 | 41,634 |
| Accrued income | 150,515 | 359,922 |
| Financial assets | 244,484 | 537,167 |
| Prepayments | 4,870 | 5,140 |
| Advance payments to creditors | 10,780 | - |
| | 260,134 | 542,307 |

The carrying value of short-term receivables is considered a reasonable approximation of fair value.

In determining the recoverability of receivables the council considers any change in the credit quality of each receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the debtor base being large and unrelated.

Included in receivables are debtors with a carrying amount of € 32,475 (2011: € nil) which are past due at the reporting date for which the council has not provided as there has not been significant change in credit quality and the amounts are still considered recoverable. The age of financial assets past due but not impaired is as follows:

| | 2012 | 2011 |
|---|---------------|----------|
| | € | € |
| Not more than 3 months | 1,687 | - |
| More than 3 months but not more than 6 months | 1,814 | - |
| More than 6 months | 28,974 | - |
| | 32,475 | - |

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

| | 2012 | 2011 |
|---|----------------|----------------|
| | € | € |
| Balance at 1 January | 381,018 | 316,466 |
| Increase in provision for LES debtors | 34,588 | 59,210 |
| Increase in provision for general receivables | - | 5,342 |
| Balance at 31 December | 415,606 | 381,018 |

13 Cash and cash equivalents

Cash and cash equivalents include the following components:

| | 2012 | 2011 |
|---------------|----------------|----------------|
| | € | € |
| Bank balances | 134,535 | 148,540 |
| Cash in hand | 43 | 93 |
| | 134,578 | 148,633 |

The council did not have any restrictions on its cash balances at year end.

14 Payables

| | 2012 | 2011 |
|------------------------------|----------------|----------------|
| | € | € |
| Payables | 358,604 | 362,934 |
| Other creditors | - | 37,722 |
| Accruals | 46,084 | 51,692 |
| Financial liabilities | 404,688 | 452,348 |
| Deferred income | 251,127 | 283,091 |
| Other creditors | 10,450 | 6,698 |
| | <u>666,265</u> | <u>742,137</u> |

The movement in deferred income is as follows:

| | 2012 | 2011 |
|-----------------------------|----------------|----------------|
| | € | € |
| Balance at 1 January | 283,091 | 30,413 |
| Received during the year | 65,856 | 310,845 |
| Released to income | (97,820) | (58,167) |
| At 31 December | 251,127 | 283,091 |
| Deferred income | | |
| Current deferred income | 74,574 | 83,742 |
| Non-current deferred income | 176,553 | 199,349 |

Financial liabilities are carried at their nominal value which is considered a reasonable approximation of fair value.

15 Capital commitments

| | 2012 | 2011 |
|--|----------------|---------------|
| | € | € |
| Details of capital commitments at the reporting date are as follows: | | |
| Contracted for | 279,585 | - |
| Approved but not yet contracted for | - | 54,000 |
| (i) Contracted for: | | |
| Road resurfacing | 150,000 | - |
| Works at Siege bell | 66,500 | - |
| Others | 63,085 | - |
| | <u>279,585</u> | <u>-</u> |
| (ii) Approved but not yet contracted for: | | |
| Motor vehicle | - | 9,000 |
| Road resurfacing | - | 20,000 |
| Urban improvements | - | 25,000 |
| | <u>-</u> | <u>54,000</u> |

16 Contingent liabilities

| | 2012 | 2011 |
|---------------------------------------|---------------|---------------|
| | € | € |
| Guarantees in favour of third parties | 4,397 | 19,300 |
| Garnishee order | 11,544 | - |
| Claims by suppliers | 40,876 | - |
| | <u>56,817</u> | <u>19,300</u> |

17 Related party transactions

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

| Name of entity | Nature of relationship |
|---|------------------------|
| Department of Local Councils | Significant control |
| Central Joint Committee (Local Enforcement) | Joint control |
| South Eastern Regional Committee | Joint control |
| Gozo Regional Committee | No control |
| North Regional Committee | No control |
| Southern Regional Committee | No control |
| Central Regional Committee | No control |
| Police General Head Quarters | No control |
| Malta Environment and Planning Authority | No control |
| Water Services Corporation | No control |
| Enemalta Corporation | No control |
| Cleansing Services Department | No control |
| Director General – Works Division | No control |
| Department of Lands | No control |
| Airmalta plc | No control |
| Bank of Valletta plc | No control |
| Wasteserv Malta Limited | No control |
| Transport Malta | No control |
| The Commissioner for Inland Revenue | No control |
| Malta Information Technology Agency | No control |
| ARMS Limited | No control |

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

| | 2012 | 2011 |
|-----------------------------|----------------|----------------|
| | € | € |
| Annual financial allocation | <u>689,226</u> | <u>664,863</u> |

The ultimate controlling party is Central Government since the council's main revenue is from the Government allocation received every quarter. Apart from the normal funds received from Government, councils also receive funds relating to specific projects as well as other funds for the improvement and betterment of the locality.

The council also receives revenue from other Government entities such as Water Services Corporation for trenching works carried out in the locality, and for the reinstatement of roads as a result of the trenching works.

Transactions with key management personnel are disclosed in note 6.

18 Risk management objectives and policies

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. See also note 18.3 for a summary of the council's financial assets and liabilities by category.

18.1 Credit risk

The council's exposure to credit risk is limited to the carrying amount of financial assets recognised at the end of the reporting period, as summarised below:

| | Notes | 2012 € | 2011 € |
|--|-------|----------------|----------------|
| Classes of financial assets – carrying amounts | | | |
| Trade and other receivables | 12 | 244,484 | 537,167 |
| Cash and cash equivalents | 13 | 134,578 | 148,633 |
| | | <u>379,062</u> | <u>685,800</u> |

The council continuously monitors defaults of counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The council's policy is to deal only with creditworthy counterparties.

The council considers that the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. See note 12 for further information on impairment or financial assets that are past due.

None of the council's financial assets is secured by collateral or other credit enhancements.

The credit risk for liquid funds is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

18.2 Liquidity risk

The council's exposure to liquidity risk arises from its obligations to meet its financial liabilities, which comprise payables (see note 14). Prudent liquidity risk management includes maintaining sufficient cash and committed credit facilities to ensure the availability of an adequate amount of funding to meet the council's obligations when they become due.

The council manages its liquidity needs through yearly budgets and business plans by carefully monitoring expected cash inflows and outflows on a daily basis. The council's liquidity risk is not deemed to be significant in view of the matching of cash inflows and outflows arising from expected maturities of financial instruments, as well as the council's committed borrowing facilities that it can access to meet liquidity needs.

At 31 December 2012 the council's financial liabilities have contractual maturities which are summarised below:

| 31 December 2012 | Current within 1 year € | Non-current 1 to 5 years € | Non-current later than 5 years € |
|------------------|----------------------------------|-------------------------------------|---|
| Payables | 358,604 | - | - |
| Accruals | 46,084 | - | - |

This compares to the maturity of the council's financial liabilities in the previous reporting period as follows:

| 31 December 2011 | Current within 1 year € | Non-current 1 to 5 years € | Non-current later than 5 years € |
|------------------|----------------------------------|-------------------------------------|---|
| Payables | 362,934 | - | - |
| Other creditors | 37,722 | - | - |
| Accruals | 51,692 | - | - |

18.3 Summary of financial assets and liabilities by category

The carrying amounts of the council's financial assets and liabilities as recognised at the reporting dates under review are categorised as follows:

| | 2012 € | 2011 € |
|---|----------------|----------------|
| Current assets | | |
| Loans and receivables: | | |
| Trade and other receivables | 244,484 | 537,167 |
| Cash and cash equivalents | 134,578 | 148,633 |
| | <u>379,062</u> | <u>685,800</u> |
| Current liabilities | | |
| Financial liabilities measured at amortised cost: | | |
| Payables | 358,604 | 362,934 |
| Other creditors | - | 37,722 |
| Accruals | 46,084 | 51,692 |
| | <u>404,688</u> | <u>452,348</u> |

19 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.

20 Going concern

The statement of financial position on page 5 and the notes thereto, with special reference to capital commitments, suggest that the going concern assumption used in the preparation of these financial statements is dependent on further sources of funds other than the annual financial allocation by Central Government, on the collection of debts due to the Council and on the continued support of the Council's creditors. Any adverse change in either of these assumptions above, would not let the Council able to meet its financial obligations as they fall due without curtailing its future commitments.