

Local Council Zurrleq
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 30 June 2021 and signed on its behalf by:



Rita Grima
Mayor



Josianne Cilia Mumford
Executive Secretary

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31. December 2020

	Notes	2020 €	2019 €
Revenue			
Funds received from Central Government	3	955,797	920,404
Income raised under Local Enforcement System	4	4,882	5,033
General Income	6	40,909	54,658
		<u>1,001,588</u>	<u>980,095</u>
Expenditure			
Personal Emoluments	7	(150,390)	(141,529)
Operations and maintenance	8	(513,592)	(485,934)
Administration and other expenditure	9	(259,526)	(296,382)
		<u>(923,508)</u>	<u>(923,845)</u>
Operating profit for the year		78,080	56,250
Finance income		<u>0</u>	<u>0</u>
Profit for the year	7	<u><u>78,143</u></u>	<u><u>56,336</u></u>

The notes on pages 8 to 25 form an integral part of these financial statements.

	Notes	2020 €	2019 €
Non-Current Assets			
Property, plant and equipment	10	748,277	826,614
		<u>748,277</u>	<u>826,614</u>
Current Assets			
Receivables	11	122,409	58,647
Cash and cash equivalents	12	1,112,488	1,074,508
Total Current Assets		<u>1,234,897</u>	<u>1,133,155</u>
Total Assets		<u>1,983,174</u>	<u>1,959,769</u>
RESERVES			
Retained earnings		1,817,364	1,739,221
Total reserves		<u>1,817,364</u>	<u>1,739,221</u>
Current Liabilities			
Trade and other payables	13	165,810	220,548
		<u>165,810</u>	<u>220,548</u>
Total Liabilities		<u>165,810</u>	<u>220,548</u>
Total reserves and liabilities		<u>1,983,174</u>	<u>1,959,769</u>

These financial statements were approved by the Local Council on 30th June 2021 and signed on its behalf by:

Rita Grima
Mayor

Josianne Cilia Mumford
Executive Secretary

The notes on pages 8 to 25 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	1,682,885	1,682,885
Profit for the year	56,336	56,336
At 31 December 2019	<u>1,739,221</u>	<u>1,739,221</u>
At 1 January 2020	1,739,221	1,739,221
Profit for the year	78,143	78,143
At 31 December 2020	<u>1,817,364</u>	<u>1,817,364</u>

Statement of Cash Flows
for the year ended 31 December 2020

	2020		2019	
	€	€	€	€
Net profit for the year	78,143		56,336	
Reconciliation to cash generated from operations:				
Amortisation and Depreciation	154,443		162,700	
Movement in Provision for Doubtful Debts	(675)		(2,224)	
Interest receivable	(63)		(86)	
Operating surplus before working capital changes	231,848		216,726	
(Increase) in receivables	(53,295)		(10,000)	
(Increase) in other receivables	(9,793)		(20,933)	
(Decrease) in payables	(6,464)		(15,847)	
(Decrease) / increase in other payables	(48,274)		32,474	
Cash generated from operating activities		114,022		202,420
Cash flow from investing activities				
Interest received	63		86	
Purchase of property, plant & equipment	(104,871)		(54,449)	
Grants received	28,766		21,724	
Cash (used in) investing activities		(76,042)		(32,339)
Net increase in cash in the year		37,980		169,781
Cash and equivalents at beginning of year		1,074,508		904,727
Cash and equivalents at end of year Note 12		1,112,488		1,074,508

1. General Information

The Zurrieq 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 Centru tal-Komunita' Joe Cassar, Triq Pietru Pawl Saydon, Zurrieq ZRQ 1030. These financial statements were approved for issue by the Council Members on 30 June 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 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 do not 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.

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
Construction Works	10
Urban Improvements (Street Furniture)	10
Special Projects	10
Office Equipment	20
Motor Vehicles	20
Plant and Machinery	20
Computer Equipment	25
Tents	10
Waste Bins	Replacement Basis
Playground Furniture	100
Traffic Signs	Replacement Basis
Road Signs	Replacement Basis
Street Mirrors	Replacement Basis
Street Lights	100

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 Southern Region has taken over the Local Enforcement System function and the Council receives 10% administrative reimbursements on fines collected. Subsequently, as from 1st October 2015, the Local Enforcement System Authority is now responsible for the overall management and control 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. This is a change in accounting policy, and according to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, it has been accounted for retrospectively.

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.

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 all 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

Trade and other assets are measured at fair value, with changes in fair value subsequently recognised in profit and loss. Details of impairment policies and the calculation of the loss allowance as per above.

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.'

Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the Council, 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 IAS 1.

Capital management policies

The Council's objectives when managing capital are:

- to safeguard the council's ability to continue as a going concern, so that it can continue to provide services and benefits to its local community

The Council sets the amount of capital in proportion to risk. The Council manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

The Council monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt ÷ adjusted capital. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents. Adjusted capital comprises of retained earnings.

3. Funds received from central government	2020	2019
	€	€
In terms of section 55 of the Local Council Act	881,522	838,120
Supplementary Government Income	-	4,032
Other Government Income	74,275	78,252
	<u>955,797</u>	<u>920,404</u>
4. Local Enforcement Income	2020	2019
	€	€
Contraventions & other fines	(369)	(425)
Income from LES administration fees	5,251	5,458
	<u>4,882</u>	<u>5,033</u>
5. Investment Income	2020	2019
Bank Interest	63	86
	<u>63</u>	<u>86</u>
6. General Income	2020	2019
	€	€
Community Services	3,468	21,775
General Income	94	47
Contributions	-	2,477
Insurance Claims	1,379	100
Income from Permits	35,968	30,259
	<u>40,909</u>	<u>54,658</u>
7. Profit for the year	2020	2019
	€	€
Profit for the year is stated after charging:		
Staff salaries	150,390	141,529
Depreciation of non-current assets	154,443	162,700
	<u>304,833</u>	<u>304,229</u>

Note

Personal Emoluments

	2020	2019
	€	€
Mayor's Allowance	15,035	15,351
Councillors' Allowance	22,600	14,900
Executive Secretary Salary and Allowances	36,280	36,067
Employees' Salaries	67,737	66,682
Social Security Contributions	8,738	8,529
	<u>150,390</u>	<u>141,529</u>

8. Operations and Maintenance

	2020	2019
	€	€
<i>Repairs and Upkeep:</i>		
Road/Street Pavements	84,186	59,750
Road Markings	35,079	42,116
Road & Street Patching	26,804	38,650
Office Furniture and Equipment	396	230
Plant & Equipment	2,078	-
Other repairs and Upkeep	55,283	52,682
	<u>203,826</u>	<u>193,428</u>
<i>Contractual Services:</i>		
Refuse Collection	176,981	166,723
Bulky Refuse Collection	22,773	16,140
Road & Street Cleaning	44,216	45,072
Cleaning & Maintenance Non-Urban Roads	-	3,577
Cleaning - Public Conveniences	9,136	10,665
Cleaning - Council Premises	1,437	2,169
Cleaning & Maintenance Parks & Gardens	29,471	31,333
Street Lighting	16,525	15,402
Studies & Consultations	9,163	1,062
Local Enforcement Expenses	64	363
	<u>309,766</u>	<u>292,506</u>
	<u>513,592</u>	<u>485,934</u>

9. Administration and other expenditure

	2020	2019
	€	€
Utilities	13,417	21,202
Operating materials & supplies	5,727	8,300
Rent	2,923	2,818
Participation fees - Int. Mtg	86	-
Participation fee - Nat. Mtg.	-	1,095
Membership - Local Organisations	900	900
Printing	-	4,578
Stationery	2,757	2,203
Subscriptions	208	340
Postages	881	1,182
Other Office Services	3,918	-
Transport	3,038	2,237
Travel	-	2,194
Information Services	6,085	8,189
Insurance Coverage	4,468	4,577
Bank Charges	1,039	902
IT Development Services	5,113	5,065
Legal services	1,201	990
Accountancy services	4,413	3,956
Architect fees	4,736	5,627
Other support services	4,190	9,799
Training	-	27
Other Hospitality Costs	1,133	1,043
Social Events	5,980	21,816
Cultural Events	16,210	22,318
Community Services	880	1,395
Provision for doubtful debtors	-	47
Sundry Minor Expenses	155	-
Provision for receivables	(675)	(2,224)
Twinning expenses	-	-
Amortisation and Depreciation	154,443	162,700
	<u>259,526</u>	<u>296,382</u>

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

10. Property, plant and equipment

	Trees	Property	Construction Works	Street Signs	Urban Improvements	Plant and Machinery	Office Equipment	Office Furniture & fittings	Special Programmes	Assets under construction	Total
	€	€	€	€	€	€	€	€	€	€	€
Cost											
At 1 January 2019	7,167	115,304	453,311	11,615	502,776	5,073	126,298	69,315	2,922,789	17,132	4,230,780
Additions	3,976	-	-	-	40,118	540	1,805	1,119	-	6,891	54,449
Reclassification	-	-	-	-	(27,502)	-	358	-	28,386	(1,242)	-
At 31 December 2019	11,143	115,304	453,311	11,615	515,392	5,613	128,461	70,434	2,951,175	22,781	4,285,229
Grants											
At 1 January 2019	-	-	-	-	-	-	18,469	-	1,275,101	-	1,293,570
Grants received	1,696	-	-	-	20,028	-	-	-	-	-	21,724
Grants returned	-	-	-	-	-	-	-	-	-	-	-
At 31 December 2019	1,696	-	-	-	20,028	-	18,469	-	1,275,101	-	1,315,294
Depreciation											
At 1 January 2019	-	17,772	412,164	11,615	439,180	4,797	99,303	51,652	944,138	-	1,980,621
Reclassification	-	-	-	-	(19,838)	-	(6,073)	-	25,911	-	-
Charge for the year	-	1,175	7,102	-	20,189	84	5,673	2,547	125,930	-	162,700
At 31 December 2019	-	18,947	419,266	11,615	439,531	4,881	98,903	54,199	1,095,979	-	2,143,321
Net book values											
At 31 December 2019	9,447	96,357	34,045	-	55,833	732	11,089	16,235	580,095	22,781	826,614

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

Property, plant and equipment	Trees	Property	Construction Works	New Street Signs	Urban Installments	Plant machinery and Computer Equipment	Office Furniture & fittings	Special Programmes	Assets under construction	Total
	€	€	€	€	€	€	€	€	€	€
Cost										
At 1 January 2020	11,143	115,304	453,311	11,615	€15,392	5,613	70,434	2,951,175	22,781	4,285,229
Additions	2,959	-	-	-	18,201	7,746	803	69,113	6,050	104,872
Reclassification	-	-	-	-	-	-	-	2,745	(2,745)	-
At 31 December 2020	14,102	115,304	453,311	11,615	333,593	136,207	71,237	3,023,033	26,086	4,390,101
Grants										
At 1 January 2020	1,696	-	-	-	20,028	-	18,469	1,275,101	-	1,315,294
Grants received	2,385	-	-	-	9,436	6,273	-	10,672	-	28,766
At 31 December 2020	4,081	-	-	-	29,464	24,742	-	1,285,773	-	1,344,060
Depreciation										
At 1 January 2020	-	18,947	419,266	11,615	139,531	4,881	54,199	1,095,979	-	2,143,321
Charge for the year	-	1,175	7,102	-	16,934	165	2,424	122,330	-	154,443
At 31 December 2020	-	20,122	426,368	11,615	156,465	5,046	56,623	1,218,309	-	2,297,764
Net book values										
At 31 December 2020	10,021	95,182	26,943	-	47,664	567	14,614	518,951	26,086	748,277

11. Receivables

		2020	2019
		€	€
Receivables	<i>Note</i>	73,806	21,060
Other receivables		10,917	824
Accrued income		24,091	28,471
Financial assets		<u>108,814</u>	<u>50,355</u>
Prepayments		13,595	8,292
		<u>122,409</u>	<u>58,647</u>

Receivables

General receivables are analysed as follows:

	2020	2019
	€	€
Within credit period	4,284	4,931
Exceeded credit period but not impaired	69,522	16,129
	<u>73,806</u>	<u>21,060</u>

Receivables are stated after a specific provision for doubtful debts amounting to € 622 (2019: € 622).

LES Debtors

LES debtors are stated after a specific provision for doubtful debts amounting to € 295,970 (2019: € 296,645).

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

	2020	2019
	€	€
Balance at 1 January	296,645	298,869
Decrease in provision for LES Debtors	(675)	(2,224)
Balance at 31 December	<u>295,970</u>	<u>296,645</u>

12. Cash and equivalents

	2020	2019
	€	€
Bank Balances	1,112,203	1,074,204
Cash in Hand	285	304
Cash and cash equivalent	<u>1,112,488</u>	<u>1,074,508</u>

13. Payables

	2020	2019
	€	€
Payables	50,462	53,318
Other creditors	-	17,121
Other payables	25,057	25,000
Accruals	32,486	36,073
Financial Liabilities	<u>108,005</u>	<u>131,512</u>
Deferred income	6,010	7,000
Grants not yet utilised	56,795	85,036
	<u>165,810</u>	<u>220,548</u>

14. Capital commitments

	2020	2019
	€	€
Details of capital commitments at the accounting date are as follows:		
Approved but not yet contracted for	<u>726,975</u>	<u>554,798</u>
These could be analysed as follows:		
<i>(i) Approved but not yet contracted for:</i>		
Urban Improvements	722,019	550,598
Office equipment	4,956	2,700
Trees	-	1,500
	<u>726,975</u>	<u>554,798</u>

15. Contingent liabilities

The Council had a case in front of the Small Claims Tribunal. The Council needs to pay € 5,057 to the outgoing contractor. The amount has been provided for.

Included as other receivables the Council has bank guarantees amounting to Eur 10,370.

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>881,522</u>	<u>838,120</u>

Key management compensation

Transactions with key management personnel are disclosed in note 7.

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	1,112,488	1,074,508
Receivables	108,814	50,355
	<u>1,221,302</u>	<u>1,124,863</u>
<i>Financial liabilities</i>		
Trade payables and other payables	108,005	131,512
	<u>108,005</u>	<u>131,512</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

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 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.

As at 31 December 2020, trade receivables of € 69,522 (2019: € 16,129) 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 institutions with high quality standing or rating. At 31 December 2020, cash and cash equivalents are held with counterparties with a credit rating of A+ and BBB and are callable on demand. Council consider the probability of default to be close to zero as the counterparties have a strong capacity to meet their 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 current asset position amounted to € 1,069,087 (2019: € 912,607) 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	50,462	-	-	-	50,462
Accruals	25,057	-	-	-	25,057
Short term borrowings	32,486	-	-	-	32,486
	<u>108,005</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>108,005</u>
31 December 2019					
Payables	53,318	-	-	-	53,318
Other payables	42,121	-	-	-	42,121
Accruals	36,073	-	-	-	36,073
	<u>131,512</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>131,512</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.

On 11th March 2020, the World Health Organisation declared COVID-19 outbreak a global pandemic. Following this, there were no changes in the local council activities and operations as a result of this event due to the fact that the Local Council obtains its funds mainly from the central government.

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.

19. Comparative Figures

Certain amounts have been re-classified to conform with the current year's presentation.