

Ghajnsielem Local Council
Annual Report and Financial Statements
For the year ended 31 December 2019

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Statement of Local Council Members' and Executive Secretary's Responsibilities For the year ended 31 December 2019

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 Councils (Financial) Regulations, and the Local Councils (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, the Local Councils (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 08/06/2020 and signed on its behalf by



Kevin Cauchi
Mayor



Lucienne Haber
Executive Secretary

Statement of Comprehensive Income


For the year ended 31 December 2019

	Notes	2019 €	2018 €
Revenue			
Funds Received from Central Government	3	399,040	369,041
Income raised under the Local Enforcement System	4	1,580	1,381
General Income	5	53,208	42,902
		-----	-----
		453,828	413,324
		-----	-----
Expenditure			
Personal Emoluments	6	(99,401)	(86,556)
Operations and Maintenance	7	(124,929)	(114,550)
Administration and Other Expenditure	8	(232,967)	(153,612)
		-----	-----
		(457,297)	(354,718)
		-----	-----
Operating (loss)/income for the year	6	(3,469)	58,606
Finance Income	9	33	46
		-----	-----
Total comprehensive (loss)/income for the year	6	(3,436)	58,652
		-----	-----


Statement of Financial Position
For the year ended 31 December 2019

	Notes	2019 €	2018 €
ASSETS			
Intangible asset	10	163	217
Property, plant and equipment	11	643,142	208,188
Total non-current assets		<u>643,305</u>	<u>208,405</u>
Receivables	12	98,751	73,411
Cash and cash equivalents	13	530,989	605,956
Total current assets		<u>629,740</u>	<u>679,367</u>
TOTAL ASSETS		<u><u>1,273,045</u></u>	<u><u>887,772</u></u>
RESERVES AND LIABILITIES			
Retained earnings		777,965	781,401
Total reserves		<u>777,965</u>	<u>781,401</u>
LIABILITIES			
Payables	14	495,080	106,371
Total current liabilities		<u>495,080</u>	<u>106,371</u>
TOTAL RESERVES AND LIABILITIES		<u><u>1,273,045</u></u>	<u><u>887,772</u></u>

These financial statements were approved by the Local council on 08/06/2020 and signed on its behalf by:



Kevin Cauchi
Mayor



Lucienne Haber
Executive Secretary

Statement of Changes in Reserves

For the year ended 31 December 2019

	Retained Funds €
At 1 January 2018	722,749
Total comprehensive income for the year	58,652
At 31 December 2018	781,401
At 1 January 2019	781,401
Total comprehensive loss for the year	(3,436)
At 31 December 2019	777,965

Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 €	2018 €
Cash flow from operating activities			
Total comprehensive (loss)/income for the year		(3,436)	58,652
Reconciliation to cash generated from operations:			
Depreciation		73,164	9,325
Amortisation		54	54
Provision for bad debts		-	-
Interest Receivable		(33)	(46)
		-----	-----
Operating profit before working capital changes		69,749	67,985
(Increase)/Decrease in receivables		(25,340)	154,552
Increase in payables		196,202	8,193
		-----	-----
Cash generated from operating activities		240,611	230,730
		-----	-----
Cash flows from investing activities			
Interest received		33	46
Purchase of property, plant and equipment		(538,118)	(45,852)
Receipts of Grants		222,507	256,375
		-----	-----
Cash (used in) / generated from investing activities		(315,578)	210,569
		-----	-----
Net (decrease)/increase in cash in the year		(74,967)	441,299
Cash and cash equivalents at beginning of year		605,956	164,657
		=====	=====
Cash and cash equivalents at end of year	13	530,989	605,956
		=====	=====

Notes to the Financial Statements

For the year ended 31 December 2019

1 General Information

The Local Council Ghajnsielem is the local authority of Ghajnsielem set up in accordance with the Local Councils Act (1993). The office of the Local Council is situated at JF De Chambray, Ghajnsielem. These financial statements were approved for issue by the Council Members on _____. The Local Council's presentation as well as functional currency are denominated in €.

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 as adopted by the EU.

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

During the year under review, the Council has applied the following International Financial Reporting Standards as adopted by the EU:

IFRS 16 Leases specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. Its applicable to annual reporting periods beginning on or after 1 January 2019.

Long term interests in Associates and Joint Ventures (amendments to IAS 25) clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. It is effective for annual periods beginning on or after 1 January 2019.

Annual Improvements to IFRS Standards 2015-2017 Cycle makes amendments to the following standards: IFRS 3 and IFRS 11 - the amendments to IFRS 3 clarify that when an entity obtains control of

a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business; IAS 23 – the amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. This is effective for annual periods beginning on or after 1 January 2019.

The amendments in Plan Amendments, Curtailment or Settlement (amendments to IAS 19) are :- If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. This is effective for annual periods beginning on or after 1 January 2019.

New Standards and amendments not yet adopted:

A number of new International Financial Reporting Standards and amendments and revisions thereto were in issue but not yet adopted by the EU during the financial period under review. These include the following:

The amendments in Definition of Material (amendments to IAS 1 and IAS 8) clarify the definition of material and align the definition used in the conceptual framework and the standards. It is effective for annual reporting periods beginning on or after 1 January 2020.

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 Asset

Computer software is valued at cost less accumulated depreciation and impairment losses to date. Depreciation to write off the cost is calculated on a monthly basis using the straight line 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 straight line method at rates calculated to write off the cost less residual value of each asset over its expected useful life as follows:

	%
Land	0%
Trees	0%
Buildings	1%
Office furniture and fittings	8%
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%
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 Statement of Financial Position 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 council 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.

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 International Accounting Standards 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 Statement of Comprehensive Income as it accrues.

Income from central government is not recognised until there is 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.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the

entity recognises expenses for the related costs which the grants are intended to compensate, which in the case of grants related to assets requires deducting it from the carrying amount of the asset, using the capital approach.

Foreign currencies

Items included in the financial statements are measured using the currency of the primary economic environment in which the Local Council operates. These financial statements are presented in €, which is the Council's functional and presentation currency.

Transactions denominated in foreign currencies are translated into € at the rates of exchange in operation on the dates of the transactions. Monetary assets and liabilities expressed in foreign currencies are translated into euro at the rates of exchange prevailing at the date of the Statement of Financial Position.

Profits 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 cash equivalents

Cash and cash equivalents are carried in the Statement of Financial Position at face value. For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise cash in hand and balances held with banks.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and based on historic experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. In the opinion of the Executive Secretary, the accounting estimates and judgements made in the preparation of the financial statements are not difficult, subjective or complex, to a degree that would warrant their description as critical in terms of the requirements of IAS1 (revised) - 'Presentation of Financial Statement'.

Capital management

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
- that the Council maintains a positive working capital

To achieve the above, the Council carries out a quarterly review of the working capital ratio ('Financial Situation Indicator'). This ratio was positive at the reporting date and has not changed significantly from the previous year. 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.

Financial Instrument

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 substantial risks and rewards are transferred.

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

Financial assets and financial liabilities are measured initially at fair value plus transaction 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 at each identified group.

Financial Liabilities

The Council's financial liabilities includes other payables. These are stated at their nominal account which is a reasonable approximation of fair value.

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

3 Funds received from central government

	2019 €	2018 €
In terms of section 55 of the Local Councils Act	366,268	347,241
Supplementary government income	32,772	21,800
	-----	-----
	399,040	369,041
	=====	=====

4 Income raised under Local Enforcement System

	2019 €	2018 €
Administration Income from Contraventions	1,580	1,381
	-----	-----
	1,580	1,381
	=====	=====

5 General Income

	2019	2018
	€	€
Permits	9,710	13,138
Youth exchange and twinnings	1,400	2,618
Cultural Events	40,453	19,873
Contributions and other income	1,645	7,273
	-----	-----
	53,208	42,902
	=====	=====

6 Operating (Loss) / Income for the year

	2019	2018
	€	€
Operating (Loss) / income for the year is stated after charging:		
Staff Salaries	99,401	86,556
Depreciation of property, plant and equipment	73,164	9,325
Amortisation of intangible assets	54	54
	-----	-----
	=====	=====

Staff Salaries

	2019	2018
	€	€
Mayor's Remuneration	9,436	7,464
Mayor and Councillors' Allowances	9,700	6,400
Executive Secretary salary and allowances	31,065	31,095
Employees' Salaries	41,667	35,740
Social security contributions	7,533	5,857
	-----	-----
	99,401	86,556
	=====	=====

Average number of persons employed

Employees	4	3
Mayor and Councillors	5	5
	-----	-----

7 Operations and Maintenance

	2019	2018
	€	€
<i>Repairs and upkeep</i>		
Road and street pavements	3,839	1,140
Street signs	2,902	3,183
Road markings	1,013	726
Other repairs and upkeep	6,410	3,649
	-----	-----
	14,164	8,698
	=====	=====

<i>Contractual services:</i>		
Refuse collection	64,200	59,732
Bulky refuse collection	4,782	1,227
Road and street cleaning	19,193	19,997
Cleaning and maintenance of public conveniences	7,185	11,869
Cleaning and maintenance of parks and gardens	4,901	4,440
Cleaning council offices	2,720	1,435
Other contractual services	-	1,033
Street lighting	7,784	6,050
LES related expenditure	-	69
	-----	-----
	110,765	105,852
	=====	=====
Total operations and maintenance expenses	124,929	114,550
	=====	=====

8 Administration and other expenditure

	2019	2018
	€	€
Utilities	4,927	5,993
Materials and supplies	18,896	19,558
Rent	2,700	650
National and international	930	708
Office services	15,658	8,597
Transport	9,700	9,713
Overseas travel	468	5,324
Information services	10,847	2,581
Other contractual services	10,370	2,569
Professional services	14,132	17,943
Training costs	348	-
Community and hospitality	62,289	66,071
Depreciation	73,164	9,325
Amortisation	54	54
Provision for bad debts	-	-
Penalties	1,200	250
Lease of equipment	7,284	4,276
	-----	-----
	232,967	153,612
	=====	=====

9 Finance Income

	2019	2018
	€	€
Bank Interest receivable	33	46
	=====	=====

10 Intangible asset

	Computer Software €	Total €
Cost		
At 1 January 2019	1,342	1,342
At 31 December 2019	1,342	1,342
Provision for diminution in value		
At 1 January 2019	1,125	1,125
Charge for the year	54	54
At 31 December 2019	1,179	1,179
Net book values		
At 31 December 2019	163	163
At 31 December 2018	217	217

12 Receivables

		2019 €	2018 €
Amounts receivable	<i>Note</i>	36,096	12,145
Prepayments and accrued income		62,655	61,266
		-----	-----
		98,751	73,411
		=====	=====

Amounts receivable

General receivables are analysed as follows:

		2019 €	2018 €
Within credit period		8,542	5,971
Exceeded credit period but no impaired		27,554	6,174
		-----	-----
		36,096	12,145
		=====	=====

Note

Receivables are net of provision for doubtful debts of Eur 6,757 (2017: Eur 6,757)

13 Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following Statement of Financial Position amounts:

		2019 €	2018 €
Bank Balances		530,949	605,906
Cash in Hand		41	50
		-----	-----
		530,989	605,956
		=====	=====

14 Payables

		2019 €	2018 €
Accounts payables		287,047	77,470
Accruals		15,526	28,901
Short term deferred income		192,507	-
		-----	-----
		495,080	106,371
		=====	=====

15 Capital commitments

		2019 €	2018 €
Total capital commitments		281,280	369,500
(i) Approved but not yet contracted for:			
Resurfacing works	<i>Note</i>	122,000	277,500
Special Projects	<i>Note</i>	82,000	50,000
Rubble walls	<i>Note</i>	77,280	-
Electric Minivan		-	42,000
		281,280	369,500

Note

Resurfacing works to be carried out will be fully financed by the Ministry for Gozo, while reconstruction of rubble walls will be fully financed by EU funds Measure 4.4.

Note

Special Projects will be partly financed by government entities.

16 Contingent Liabilities

There is a lawsuit pending against the Local Council in the names Vincent Xueret Et. Vs Noel Grima ET. The council has good grounds of defence, however in case that the court case is not decided in its favour, the Council might be condemned to pay up to Eur 300,000. This figure is estimative since the plaintiffs have not put forth a concrete figure but are asking the Court to liquidate the damages.

17 Related Parties Disclosures

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 Councils	Significant control
Gozo Regional Committee	Joint control
LESA	No control
Central Regional Committee	No control
North Regional Committee	No control
South Eastern Regional Committee	No control
South 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
Department of Agriculture	No control
Director General - Works Division	No control
Department of Lands	No control
Department of Inland Revenue	No control
Airmalta plc	No control
Bank of Valletta plc	No control
Wasteserv Malta Limited	No control

Kunsill Malti għall-iSports	No control
Mitts Limited	No control
Ministry for the Family and social solidarity	No control
Malta Communications Authority	No control
Green MT	No control

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

	2019 €	2018 €
Annual Financial Allocation	366,268 =====	347,241 =====

Key management compensation

Transactions with key management personnel are disclosed in note 6.

Ultimate controlling party

The ultimate controlling party of the Local Council 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 to specific projects as well as other funds for the improvement and betterment of the locality.

18 Financial Risk Management

The Council's activities expose it to a variety of financial risks such as market risk, credit risk, liquidity risk, and interest rate risk. The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Council's financial performance.

Credit Risk

Financial assets which potentially subject the Council to concentrations of credit risk consist principally of cash at bank and receivables. The Council's cash is placed with quality financial institutions as well as it limits the amount of credit exposure with any one financial institution. The Council has appropriate policies to ensure that income is received from sources with appropriate credit history. In this respect, credit risk with respect to receivables is monitored continuously and the Council places a provision on any debt on which there is doubt of recoverability. Bad debts are therefore negligible and in this respect the Council has no significant concentration of credit risk.

The maximum exposure to credit risk for amounts receivable at the reporting date, net of impairment losses, by type of customer is as follows:

Receivables from related parties	€ 36,096 =====
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Liquidity risk

Liquidity risk is defined as financial distress, an extraordinary measure which needs to be taken to manage the council's present commitments arising due to shortage of funds, The objective of liquidity risk management is to maintain sufficient liquidity, and to ensure that it is available within the necessary time frame in order not to create financial distress and curtail current obligations as well as future short term commitments. The Council monitors and manages its risk to a shortage of funds by maintaining sufficient cash and by monitoring the availability of raising funds to meet commitments due. In fact, at year end, the Council has as cash and cash equivalents the amount of €605,956. This should ensure an ongoing working capital of the Council for the next 12 months. The Council resulted in a net asset position of €694,307 which signifies that there is no adequate headroom available to cover present liabilities as well as short term obligations and commitments arising.

Foreign currency risk

Foreign currency transactions arise when the Council buys or sells goods whose prices is denominated in a foreign currency, or incurs or settles liabilities, denominated in a foreign currency. The Council does not trade in any foreign currencies.

Interest rate risk

Interest rate risk mainly arises through interest bearing liabilities and assets. The objective of interest rate risk management is to optimise the balance between minimizing uncertainty caused by fluctuations in interest rates and maximising the net interest income and expense.

19 Summary of the 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:

	2019 €	2018 €
<i>Current Assets</i>		
Trade and other receivables	98,751	73,411
Cash and cash equivalents	530,989	605,956
	-----	-----
	629,740	679,367
	=====	=====
<i>Current Liabilities</i>		
Financial liabilities measured at amortised costs:		
Payables	495,080	106,371
	-----	-----
	495,080	106,371
	=====	=====

20 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.