

29 FEB 2020

Local Council Zabbar
Annual Audit Report
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 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 27 February 2020 and signed on its behalf by:

SIGNED

Jorge Grech
Mayor

SIGNED

Stephanie Testaferrata De Noto
Executive Secretary

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Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2019

	Notes	2019 €	2018 €
Revenue			
Funds received from Central Government	3	1,079,243	992,243
Income raised under Local Enforcement System	4	7,365	9,000
General Income	6	42,088	54,187
		<u>1,128,696</u>	<u>1,055,430</u>
Expenditure			
Personal Emoluments	7	(179,211)	(174,142)
Operations and maintenance	8	(419,838)	(411,747)
Administration and other expenditure	9	(287,039)	(556,096)
		<u>(886,088)</u>	<u>(1,141,985)</u>
Operating profit/(loss) for the year		242,608	(86,555)
Finance income	5	<u>304</u>	<u>305</u>
Profit/(loss) for the year		<u>242,912</u>	<u>(86,250)</u>

The notes on pages 9 to 28 form an integral part of these financial statements.

Statement of Financial Position
as at 31 December 2019

		2019	2018
	Notes	€	€
ASSETS			
Non-Current Assets			
Property, plant and equipment	10	941,629	788,636
		<u>941,629</u>	<u>788,636</u>
Current Assets			
Inventories	11	9,402	9,488
Receivables	12	136,355	163,236
Cash and cash equivalents	13	1,003,638	965,422
		<u>1,149,395</u>	<u>1,138,146</u>
Total Assets		<u>2,091,024</u>	<u>1,926,812</u>
RESERVES			
Retained earnings		1,888,498	1,645,586
Total reserves		<u>1,888,498</u>	<u>1,645,586</u>
Non-Current Liabilities			
Long-term borrowings	-	-	24,597
		<u>-</u>	<u>24,597</u>
Current Liabilities			
Trade and other payables	14	174,632	231,004
Short-term borrowings	15	27,894	25,625
Total Liabilities		<u>202,526</u>	<u>281,226</u>
Total reserves and liabilities		<u>2,091,024</u>	<u>1,926,812</u>

These financial statements were approved by the Local Council on 27th February 2020 and signed on its behalf by:

SIGNED

Jorge Grech
Mayor

SIGNED

Stephanie Testaferrata De Noto
Executive Secretary

The notes on pages 9 to 28 form an integral part of these financial statements.

Statement of Changes in Equity
for the year ended 31 December 2019

	Retained Funds	Total
	€	€
At 1 January 2018	1,731,836	1,731,836
Loss for the year	(86,250)	(86,250)
At 31 December 2018	<u>1,645,586</u>	<u>1,645,586</u>
At 1 January 2019	1,645,586	1,645,586
Profit for the year	242,912	242,912
At 31 December 2019	<u>1,888,498</u>	<u>1,888,498</u>

Statement of Cash Flows
for the year ended 31 December 2019

	2019		2018	
	€	€	€	€
Net profit/ (loss) for the year	242,912		(86,250)	
Reconciliation to cash generated from operations:				
Amortisation and Depreciation	126,710		247,036	
Movement in Provision for Doubtful Debts	(1,298)		(1,907)	
Interest receivable	(304)		(305)	
Government grant released	-		-	
Operating surplus before working capital changes	368,020		158,574	
Decrease in inventories	86		2,222	
(Increase) in receivables & other receivables	(13,321)		(87,315)	
Decrease in other receivables	41,500			
(Decrease) / increase in payables & other payables	(78,700)		56,065	
Cash generated from operating activities		317,585		129,546
Cash flow from investing activities				
Interest received	304		305	
Purchase of property, plant & equipment	(275,083)		(151,811)	
Grants returned	(4,590)		-	
Grants received	-		95,201	
Cash used in investing activities		(279,369)		(56,305)
Net increase in cash in the year		38,216		73,241
Cash and equivalents at beginning of year		965,422		892,181
Cash and equivalents at end of year		1,003,638		965,422

1. General Information

The Zabbar 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 Civic Centre, Triq ic-Cawbli, Zabbar, Malta. These financial statements were approved for issue by the Council Members on 27 February 2020. The Local Council's company's presentation as well as functional currency is €.

2. Accounting Policies and Reporting Procedures

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

Accounting convention

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

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

New and amended standards adopted by the Local Council

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

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

IFRS 16, 'Leases', introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7 Statement of Cash Flows. IFRS 16 contains expanded disclosure requirements for lessees. Lessees will need to apply judgement in deciding upon the information to disclose to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. IFRS 16 is effective for financial periods beginning on, or after, 1 January 2019.

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

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 2019, 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.

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.

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
Plants	100
Litter Bins	Replacement Basis
Playground Furniture	100
Traffic Signs	Replacement Basis
Road Signs	Replacement Basis
Street Mirrors	Replacement Basis
Street Lights	100

Up to the year ended 31st December 2017, depreciation was calculated on a monthly basis using the reducing balance method at rates calculated to write off the cost less residual value of each asset over its expected useful life according to IAS 16 Property, Plant and Equipment. On 1st January 2018, the straight line method in line with IAS 16, has been adopted, in line with the Directive No.1/2017 issued by the Department for Local Government. This is a change in accounting estimate, and according to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, it has been accounted for prospectively.

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.

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.

Related parties

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

Revenue

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

Local Enforcement System

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

Government grants

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

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

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

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 € at the rates of exchange prevailing at the date of the statement of financial position.

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 substantial 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 risks 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.'

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

	2019	2018
	€	€
In terms of section 55 of the Local Council Act	978,957	928,102
Supplementary Government Income	22,955	28,640
Other Government Income	77,331	35,501
	<u>1,079,243</u>	<u>992,243</u>

4. Local Enforcement Income

	2019	2018
	€	€
Contraventions and other fines	(163)	-
Income from LES administration fees	7,528	9,000
	<u>7,365</u>	<u>9,000</u>

5. Investment Income

	2019	2018
	€	€
Bank Interest	304	305
	<u>304</u>	<u>305</u>

6. General Income

	2019 €	2018 €
Sponsorships	-	10,900
Publications	-	60
Tender Documents/Info.Charges	-	425
Refund of expenses	86	385
Donations	-	242
Contributions	-	-
Guaranteed forfeited	-	8,928
Insurance Claims	859	1,108
Income from Permits	41,143	32,381
	<u>42,088</u>	<u>54,429</u>

7. Profit/(loss) for the year

	2019 €	2018 €
Profit for the year is stated after charging:		
Staff salaries	179,211	174,142
Amortisation & Depreciation of non-current assets	126,710	247,037

Note

Personal Emoluments

	2019 €	2018 €
Mayor's Allowance	18,216	14,927
Councillors' Allowance	20,414	13,600
Executive Secretary Salary and Allowances	30,038	18,303
Employees' Salaries	99,951	116,199
Social Security Contributions	10,592	11,113
	<u>179,211</u>	<u>174,142</u>

8. Operations and Maintenance

	2019	2018
	€	€
<i>Repairs and Upkeep:</i>		
Public Property	5,503	12,936
Road/Street Pavements	23,202	23,526
Signs	10,234	7,279
Road Markings	5,630	3,960
Office Furniture and Equipment	6,281	9,771
Plant & Equipment	1,248	726
Other repairs and Upkeep	25	531
Council Property	5,265	7,496
	<u>57,388</u>	<u>66,225</u>
<i>Contractual Services:</i>		
Refuse Collection	104,090	87,389
Bulky Refuse Collection	29,257	27,312
Bring in sites	-	400
Open skips	560	300
Tipping Fees	85,381	90,695
Cleaning Services	2,649	1,066
Road & Street Cleaning	52,740	66,881
Cleaning & Maint. Non-Urban	10,291	5,999
Cleaning - Public Conveniences	24,448	23,646
Cleaning - Council Premises	1,449	608
Other Contractual Services	2,483	2,616
Clean. & Maint. Parks & Gardens	12,666	10,678
Cleaning & Maintenance - Soft Areas	16,208	13,890
Warden Services	-	313
Street Lighting	17,441	13,369
Local Enforcement Expenses	2,787	360
	<u>362,450</u>	<u>345,522</u>
	<u>419,754</u>	<u>411,747</u>

9. Administration and other expenditure

	2019 €	2018 €
Utilities	14,319	13,941
Operating materials & supplies	2,845	2,077
Rent	4,649	2,696
Membership - Local Organisations	1,325	1,059
Office Services	6,464	8,332
Transport	5,637	7,007
Travel	1,890	2,039
Information Services	5,044	7,515
Insurance Coverage	4,878	4,536
Bank Charges	372	716
Professional Services	26,136	10,929
Training	350	118
Entertainment	24	-
Conference Expenses	725	817
Visits - Foreign Delegations	-	1,198
Annual General Meeting	935	254
Social Events	229	740
Cultural Events	85,133	246,428
Community Services	705	533
General expenses	15	31
Provision for LES receivables	(1,298)	(1,907)
Depreciation	126,710	247,037
	<u>287,039</u>	<u>556,096</u>

10. Property, plant and equipment

	Trees	Construction Works	Furniture & Fittings	New Street Signs	Urban Improvements	Office & Computer Equipment	Plant Machinery
	€	€	€	€	€	€	€
Cost							
At 1 January 2018	13,275	2,778,888	80,991	31,395	367,923	43,299	34,000
Additions	16,192	28,409	18,109	-	20,000	9,356	-
At 31 December 2018	29,467	2,807,297	99,100	31,395	387,923	52,655	34,000
Grants							
At 1 January 2018	-	-	-	-	-	-	-
Government grants prior year	659	1,298,193	-	-	55,241	2,908	14,000
Government grant current year	16,192	-	-	-	-	-	-
At 31 December 2018	16,851	1,298,193	-	-	55,241	2,908	14,000
Depreciation							
At 1 January 2018	-	785,973	48,918	31,395	180,430	22,473	14,000
Charge for the year	-	206,956	15,927	-	14,810	5,125	-
At 31 December 2018	-	992,929	64,845	31,395	195,240	27,598	14,000
Net book values							
At 31 December 2018	12,616	516,175	34,255	-	137,442	22,149	20,000

10. Property, plant and equipment

	Trees	Construction Works	Furniture & Fittings	New Street Signs	Urban Improvements	Office & Computer Equipment	Plan Machinery
	€	€	€	€	€	€	
Cost							
At 1 January 2019	29,467	2,807,297	99,100	31,395	387,923	52,655	35
Additions	-	173,820	3,854	-	51,656	2,550	
Reclassifications	-	132,751		-		-	
At 31 December 2019	29,467	3,113,868	102,954	31,395	439,579	55,205	35
Grants							
At 1 January 2019	16,851	1,298,193	-	-	55,241	2,908	14
Grants for the year	-	-	-	-	-	-	
Reclassification		86,493					
Grants returned	-	4,590	-	-	-	-	
	16,851	1,380,096	-	-	55,241	2,908	14
Depreciation							
At 1 January 2019	-	992,929	64,845	31,395	195,240	27,598	18
Charge for the year	-	105,517	4,360	-	10,518	5,547	
At 31 December 2019	-	1,098,446	69,205	31,395	205,758	33,145	19
Net book values							
At 31 December 2019	12,616	635,326	33,749	-	178,580	19,152	1

11. Inventories

	2019	2018
	€	€
Books for sale	9,402	9,488

12. Receivables

	2019	2018
	€	€
Receivables	34,265	19,478
Accrued income	98,321	138,125
Financial assets	132,586	157,603
Prepayments	3,769	5,633
	<u>136,355</u>	<u>163,236</u>

Receivables

General receivables are analysed as follows:

	2019	2018
	€	€
Within credit period	5,643	-
Exceeded credit period but not impaired	28,622	19,478
	<u>34,265</u>	<u>19,478</u>

Receivables are stated after a specific provision for doubtful debts amounting to € 37,829 (2018 : € 37,829).

Related party balances - LES Debtors

LES debtors are stated after a specific provision for doubtful debts amounting to € 357,823 (2018:€ 359,121).

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

	2019	2018
	€	€
Balance at 1 January	359,121	361,028
Decrease in provision for LES debtors	(1,298)	(1,907)
Balance at 31 December	<u>357,823</u>	<u>359,121</u>

13. Cash and equivalents

	2019 €	2018 €
Bank Balances	1,003,018	965,214
Cash in Hand	620	208
Cash at bank and in hand	<u>1,003,638</u>	<u>965,422</u>
Cash and cash equivalents	<u>1,003,638</u>	<u>965,422</u>

14. Payables

	2019 €	2018 €
Payables	53,733	195,791
Other payables	5,121	5,121
Accruals	93,054	30,092
Financial liabilities	<u>151,908</u>	<u>231,004</u>
Grants not yet utilised	22,724	-
	<u>174,632</u>	<u>231,004</u>

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

15. Borrowings

	2019 €	2018 €
Non-current		
Third party borrowings	-	24,597
Current		
Third party borrowings <i>Note</i>	<u>27,894</u>	<u>25,625</u>
Third Party Borrowings		
Repayable between one and two years	<u>-</u>	<u>24,597</u>

Third party borrowings

Third party borrowings represent dues to the public private partnership payable. The Council entered into this agreement to carry out road resurfacing works. These amounts are unsecured, interest free and are repayable within 1 year.

16. Capital commitments

	2019 €	2018 €
Details of capital commitments at the accounting date are as follows:		
Approved but not yet contracted for	284,000	431,632
Contracted for but not provided in the financial statements	-	143,016
These could be analysed as follows:		
<i>(i) Approved but not yet contracted for:</i>		
Urban Improvements	25,000	-
Construction	224,000	431,632
Motor Vehicle	15,000	-
Office furniture & fittings	3,000	-
Office equipment	17,000	-
	284,000	431,632
<i>(ii) Contracted for but not provided in the Financial Statements:</i>		
Construction	-	143,016

17. Contingent liabilities

The Council has disputes and claims with its local supplies amounting to € 9,368 (2018: € 9,368).

18. 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:

	2019 €	2018 €
Annual Financial Allocation	<u>978,957</u>	<u>928,102</u>

Key management compensation

Transactions with key management personnel are disclosed in note 8.

19. 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>	2019	2018
<i>Financial assets</i>	€	€
<i>Loans and Receivables</i>		
Cash and bank balances	1,003,638	965,422
Receivables	132,586	138,125
	<u>1,136,224</u>	<u>1,103,547</u>
<i>Financial liabilities</i>		
Trade payables and other payables	151,908	231,004
Borrowings - current	27,894	25,625
Borrowings - long term	-	24,597
	<u>179,802</u>	<u>281,226</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 2019, trade receivables of € 28,622 (2018 : € 19,478) 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 2019, cash and cash equivalents are held with counterparties with a credit rating of 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 € 946,868 (2017: € 856,920) 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 2019 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		
	Payable	Payable	Payable	Payable	Total
	within 1 year	within 1 & 2	within 2 & 5	after more	
	years	years	years	than 5 years	
	€	€	€	€	€
31 December 2019					
Payables	53,733	-	-	-	53,733
Other payables	5,121	-	-	-	5,121
Accruals	93,054	-	-	-	93,054
Third party borrowings	27,894	-	-	-	27,894
	<u>179,802</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>179,802</u>
31 December 2018					
Payables	195,791	-	-	-	195,791
Other payables	5,121	-	-	-	5,121
Accruals	30,092	-	-	-	30,092
Third party borrowings	25,625	24,597	-	-	50,222
	<u>256,629</u>	<u>24,597</u>	<u>-</u>	<u>-</u>	<u>281,226</u>

With respect to the maturity of the Council's financial liabilities as at 31 December 2019, the Council disclose that the trade and other payables are entirely repayable within one year from the end of the respective reporting period.

20. Comparative Figures

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