

# **Siggiewi Local Council**

Report and Financial Statements

for the year ended 31 December 2011

Prepared by:

**GMM & Associates (Malta) Limited**

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**Financial Statements for the year ended 31 December 2011****Statement of Local Council Members' and Executive Secretary's Responsibilities**

The Local Councils (Financial) Regulations require the Executive Secretary to prepare a detailed annual administrative report which includes a statement of the Local Council's income and expenditure 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 25<sup>th</sup> April and signed on its behalf by:

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Dr Karol Aquilina  
Mayor

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Mr. Nicholas Baldacchino  
Executive Secretary





**Statement of Comprehensive Income  
for the year ended 31 December 2011**

	Notes	2011	2010
		Euro	Euro
<b>Income</b>			
Funds received from central government	4	692,970	701,265
Income raised under Local Council Bye-Laws	5	7,506	7,398
Income raised under Local Enforcement System	6	25,958	22,457
Investment Income	7	720	417
General Income	8	48,833	87,194
		<u>770,987</u>	<u>818,731</u>
<b>Expenditure</b>			
Personal emoluments	9	97,190	91,056
Operations and maintenance	10	345,849	321,841
Administration and other expenditure	11	251,535	275,168
		<u>(694,574)</u>	<u>(688,065)</u>
<b>Surplus for the year</b>		<u><u>76,413</u></u>	<u><u>130,666</u></u>

**Statement of Financial Position  
as at 31 December 2011**

	<b>Notes</b>	<b>2011</b>	<b>2010</b>
<b>Assets</b>		<b>Euro</b>	<b>Euro</b>
<b>Non-current Assets</b>			
Property, plant and equipment	12	1,507,003	1,091,433
<b>Current Assets</b>			
Receivables	13	125,677	79,329
Cash and cash equivalents	14	<u>248,239</u>	<u>132,208</u>
		<u>373,916</u>	<u>211,537</u>
<b>Total assets</b>		<u><u>1,880,919</u></u>	<u><u>1,302,970</u></u>
<b>Reserves and Liabilities</b>			
<b>Reserves</b>			
Retained funds		1,253,298	1,176,889
<b>Long Term Liabilities</b>			
Non Current Liabilities	15	278,832	35,815
<b>Current Liabilities</b>			
Payables	15	<u>348,789</u>	<u>90,266</u>
<b>Total reserves and liabilities</b>		<u><u>1,880,919</u></u>	<u><u>1,302,970</u></u>

The financial statements were approved by the Council on the 25<sup>th</sup> April, 2012 and were signed on its behalf by:

\_\_\_\_\_  
Dr Karol Aquilina  
Mayor

\_\_\_\_\_  
Mr. Nicholas Baldacchino  
Executive Secretary

**Statement of Changes in Equity  
for the year ended 31 December 2011**

	<b>Retained Earnings</b>
	<b>Euro</b>
<b>Balance at 31 December 2009</b>	<u>1,318,107</u>
<b>Changes in equity</b>	
Fixed Assets written off	(271,888)
Surplus for the year	<u>130,666</u>
<b>Balance at 31 December 2010</b>	1,176,885
<b>Changes in equity</b>	
Surplus for the year	<u>76,413</u>
<b>Balance at 31 December 2011</b>	<u><u>1,253,298</u></u>



**Statement of Cash Flows**  
**for the year ended 31 December 2011**

	<b>2011</b>	<b>2010</b>
	<b>Euro</b>	<b>Euro</b>
<b>Note</b>		
<b>Cash flow from operating activities</b>		
Surplus for the year	76,413	130,666
Adjustments for:		
Adjustment to income	(289)	(206)
Depreciation	113,428	115,916
Interest receivable	(720)	(417)
Increase in provision for bad debts	37,361	2,610
Income from Government Grants	<u>(7,200)</u>	<u>(3,730)</u>
	<u>233,393</u>	<u>244,839</u>
(Decrease)/ Increase in payables	258,523	(37,706)
Decrease / (Increase) in receivables	<u>(46,349)</u>	<u>(67,879)</u>
Cash generated from operations	<u>445,567</u>	<u>139,254</u>
<i>Net cash from operating activities</i>	<u>445,567</u>	<u>139,254</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(528,999)	(161,606)
Interest received	<u>720</u>	<u>417</u>
<i>Net cash used in investing activities</i>	<u>(528,279)</u>	<u>(161,189)</u>
<b>Cash flows from financing activities</b>		
Movement in Long Term Payables	243,017	-
Government grants	<u>(44,275)</u>	<u>12,940</u>
<i>Net cash from financing activities</i>	<u>198,742</u>	<u>12,940</u>
<b>Net Increase/(Decrease) in cash and cash equivalents</b>	<u>116,030</u>	<u>(59,147)</u>
Cash and cash equivalents at beginning of year	<u>132,208</u>	<u>200,350</u>
<b>Cash and cash equivalents at end of year</b>	<u>14 248,239</u>	<u>132,208</u>

**Notes to the Financial Statements  
for the year ended 31 December 2011****1. General Information**

The Siggiewi Local Council is a local government set up by the Local Councils Act, 1993. Its ultimate controlling party is the Local Councils Department within the Office of the Prime Minister.

**Significant accounting policies****1.1 Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. The financial statements are presented in Euro.

**1.2 Basis of preparation**

The financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments that are measured at re-valued amounts or fair values, as explained in the accounting policies set in note 3 below.

**2. General Information**

The following new and revised IFRSs as adopted by the EU have been applied in the current period and have affected the amounts reported in these financial statements. Details of other new and revised IFRSs as adopted by the EU applied in these financial statements that have had no material effect on the financial statements are set in note 2.1 below.

**2. 1 Application of International Financial Reporting Standard, as adopted by the EU**

In 2010, the IASB completed its annual improvements project, entitled Improvements to IFRSs. This project incorporates amendments to a number of IFRSs, including IFRS 7 Financial Instruments: Disclosures, IAS 1 Presentation of Financial Statements and IAS 34 Interim Financial Reporting.

The revision to IAS 24 Related Party Disclosures is applicable for annual periods beginning on or after 1 January 2011, with earlier application being permitted. The revised Standard simplifies the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by government and clarifies the definition of a related party. The local council is assessing the impact of this Standard on the financial statements.

The IFRS 7 Amendment addresses a perceived lack of clarity in the intended interaction between the qualitative and quantitative disclosures of the nature and extent of risks arising from financial instruments and clarifies the required level of disclosure in connection with credit risk. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets. The amendments also require certain additional disclosures. The Amendments are applicable for annual periods beginning on or after 1 July 2011.

The IAS 34 Amendment emphasises the principle in IAS 34 that the disclosure about significant events and transactions in interim periods should update the relevant information presented in the most recent annual financial report and clarifies how to apply this principle in respect of financial instruments and their fair value. The Amendments, which have been endorsed by the European Union, are applicable for annual periods beginning on or after 1 January 2011, with earlier application being permitted.

**Notes to the Financial Statements  
for the year ended 31 December 2011**

.....continued

**2. 2 International Financial Reporting Standards, as adopted by the EU, in issue but not yet effective**

The IAS 1 Amendment clarifies that entities may present the required reconciliations for each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. These Amendments will require companies to group together items within other comprehensive income that may be reclassified to the profit or loss section of the statement of comprehensive income. These amendments are effective for financial years beginning on or after 1 July 2012.

**2. 3 Receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment is established when there is objective evidence that the Council will not be able to collect all amounts receivable. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are considered as indicators that the amount to be received is impaired. Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**2. 4 General Payables**

Payables and accrued expenditure are recognised initially at the transaction price and subsequently measured at amortised cost. The difference between the proceeds and the amount payable is recognised over the period of the payable using the effective interest method.

**2.5 Judgements in applying accounting policies and key sources of estimating uncertainty**

In the process of applying the Council's accounting policies, the Council Members have made no judgments which can significantly affect the amounts recognized in the financial statements.

At the end of the reporting period, except as disclosed in note 20, there were no key assumptions concerning the future, or any other key sources of estimating uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**Notes to the Financial Statements  
for the year ended 31 December 2011**

.....continued

**3. The principal accounting policies.****3. 1 Income recognition**

Income in general is stated when there is reasonable certainty that the income would be receivable and thus can be accrued for. Other income such as that derived from the organisation of courses, cultural, sporting and social activities is only recognised on a cash basis.

As from 1<sup>st</sup> September 2011, the Central Government re-allocated the full management of the LES system from the Joint Committee to the Regional Offices. From 1<sup>st</sup> September 2011, Siggiewi Local Council will be compensated for the handling of the payments made at its council on a pro rata basis.

**3. 2 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for the intended use or sale.

All other borrowing costs are recognised in the statement of comprehensive income in the period in which they are incurred.

**3. 3 Government grants**

Government grants are not recognised until there is reasonable assurance that the Council will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in the statement of comprehensive income on a systematic basis over the periods in which the Council recognises as expenses the related costs for which the grants are intended to compensate, in line with the Office Local Council Department based on IAS 20.

Specifically, government grants whose primary condition is that the Council should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to the statement of comprehensive income on a systematic and rational basis over the useful lives of the related assets.

**Notes to the Financial Statements  
for the year ended 31 December 2011**

.....continued

**3. 4 Property, plant and equipment**

Freehold land is not depreciated.

Furniture and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the reducing balance method. The estimated useful lives, residual values and depreciation method are renewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognised in the statement of comprehensive income.

Tangible fixed assets are stated at cost less accumulated depreciation and grants received for specific projects. Depreciation is calculated on a monthly basis using the reducing balance method at rates estimated to write down the cost of all tangible fixed assets, other than land and trees over their expected useful lives as follows:

	Rates in %
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
Playground furniture	100

Certain depreciation rates such as those of plants, playground equipment and street lighting had their depreciation rate changed from 10% to 100% in October 2002 by virtue of Legal Notice 323 of 2002. Litter bins and street signs are treated on replacement basis as per memo 121/2011.

**Notes to the Financial Statements  
for the year ended 31 December 2011**

.....continued

**3. 5 Financial Instruments**

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

Financial assets and financial liabilities are initially measured at fair value.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the statement of comprehensive income.

	<b>2011</b>	<b>2010</b>
	<b>Euro</b>	<b>Euro</b>
<b>4. Funds received from central government</b>		
In terms of section 55 of the Local Councils Act (Cap 363)	681,663	684,464
Other Government Income	<u>11,307</u>	<u>16,801</u>
	<u><u>692,970</u></u>	<u><u>701,265</u></u>

	<b>2011</b>	<b>2010</b>
	<b>Euro</b>	<b>Euro</b>
<b>5. Income raised from Bye-Laws</b>		
Income raised under Local Council Bye-Laws	<u>7,506</u>	<u>7,398</u>

**Notes to the Financial Statements  
for the year ended 31 December 2011**

.....continued

	<b>2011</b>	<b>2010</b>
	<b>Euro</b>	<b>Euro</b>
<b>6. Local Enforcement Income</b>		
Share of Profit from Joint Committee/ Fines and Penalties	<u>25,958</u>	<u>22,457</u>
	<b>2011</b>	<b>2010</b>
	<b>Euro</b>	<b>Euro</b>
<b>7. Investment Income</b>		
Bank interest	<u>720</u>	<u>417</u>
	<b>2011</b>	<b>2010</b>
	<b>Euro</b>	<b>Euro</b>
<b>8. General Income</b>		
Income from other activities	32,454	27,961
Income from tender documents	1,600	1,883
Contributions	<u>9,779</u>	<u>57,350</u>
	<u>48,833</u>	<u>87,194</u>
	<b>2011</b>	<b>2010</b>
	<b>Euro</b>	<b>Euro</b>
<b>9. Personal Emoluments</b>		
Mayor's allowance	9,546	9,566
Executive Secretary salary	25,735	26,237
Employees' wages and salaries	47,246	41,073
Councillors' allowances	8,800	8,801
Social Security Contributions	<u>5,863</u>	<u>5,379</u>
	<u>97,190</u>	<u>91,056</u>

**Notes to the Financial Statements  
for the year ended 31 December 2011**

.....continued

	<b>2011</b>	<b>2010</b>
<b>10. Operations and Maintenance</b>	<b>Euro</b>	<b>Euro</b>
<b>Repairs and upkeep:</b>		
Road and street pavements (Patching works)	51,053	41,615
Walkways	10,774	2,973
Street signs	6,885	6,848
	<u>68,712</u>	<u>51,436</u>
 <b>Contractual Services:</b>		
Refuse collection (including bins on wheels)	70,023	68,537
Bulky refuse collection (including open skips)	59,860	58,060
Road and Street Cleaning (mechanical and manual)	46,120	30,404
Cleaning and Maintenance of Non-Urban Roads	44,482	30,243
Cleaning and Maintenance of Public Conveniences	9,322	7,961
Cleaning and Maintenance of Parks and Gardens	17,542	12,323
Cleaning and Maintenance of Beaches & Catchment Areas	1,118	1,192
Street Lighting	16,577	16,000
Local Enforcement Expenses	12,093	9,030
	<u>277,137</u>	<u>270,405</u>
	<u><u>345,849</u></u>	<u><u>321,841</u></u>



**Notes to the Financial Statements  
for the year ended 31 December 2011**

.....continued

	<b>2011</b>	<b>2010</b>
	<b>Euro</b>	<b>Euro</b>
<b>11. Administration and other expenditure</b>		
Utilities	10,628	16,441
Other repairs and upkeep	6,864	19,003
Rent	6,918	9,786
National and International Memberships	978	48
Office Services	6,120	7,198
Penalties	-	330
Transport	1,293	906
Information Services	4,418	12,843
Other contractual services	10,037	16,464
Professional services	20,855	24,078
Community and hospitality	2,595	-
Social events	28,371	19,904
Cultural events	29,145	29,558
Penalties	9,884	-
Increase in provision for bad debts	-	2,693
Depreciation	113,429	115,916
	<u>251,535</u>	<u>275,168</u>

**Notes to the Financial Statements  
for the year ended 31 December 2011**

.....continued

**12a. Property, Plant and Equipment**

	Office Furniture	New Street Signs	Office Equipment	Urban Improvements	Special Prg. Re-surf	Total
<b>Cost</b>						
At 1 Jan 2011	5,690	25,283	28,838	302,680	2,450,246	2,812,737
Additions	476,283	-	1,533	51,183	-	528,999
At 31 December 2011	481,973	25,283	30,371	353,863	2,450,246	3,341,736
<b>Grants and Other Reimbursements</b>						
At 1 Jan 2011	-	-	-	-	591,618	591,618
Additions	-	-	-	-	-	-
At 31 December 2011	-	-	-	-	591,618	591,618
<b>Depreciation</b>						
At 1 Jan 2011	2,534	25,283	14,117	124,668	963,084	1,129,686
Reclassifications	-	-	-	(88,906)	88,906	-
Charge for the year	248	-	3,537	8,251	101,393	113,429
At 31 December 2011	2,782	25,283	17,654	44,013	1,153,383	1,243,115
<b>Net Book Value</b>						
At 31 December 2011	479,191	-	12,717	309,850	705,246	1,507,003

**Notes to the Financial Statements  
for the year ended 31 December 2011**

.....continued

**12b. Property, Plant and Equipment**

	<b>Office Furniture</b>	<b>New Street Signs</b>	<b>Office Equipment</b>	<b>Urban Improvements</b>	<b>Special Prg. Re-surf</b>	<b>Total</b>
<b>Cost</b>						
At 1 Jan 2010	37,485	30,856	96,434	603,646	2,386,188	3,154,609
Additions during year	1,049	-	3,642	15,403	141,512	161,606
Adjustments	(32,844)	(5,573)	(71,238)	(316,369)	(77,454)	- 503,478
At 31 December 2010	5,690	25,283	28,838	302,680	2,450,246	2,812,737
<b>Grants and Other Reimbursements</b>						
At 1 Jan 2010	-	-	-	-	591,618	591,618
Additions	-	-	-	-	-	-
At 31 December 2010	-	-	-	-	591,618	591,618
<b>Depreciation</b>						
At 1 Jan 2010	23,378	30,856	72,447	276,952	841,934	1,245,567
Adjustments	(21,027)	(5,573)	(61,867)	(245,424)	102,094	(231,797)
Charge for the year	183	-	3,537	93,140	19,056	115,916
At 31 December 2010	2,534	25,283	14,117	124,668	963,084	1,129,686
<b>Net Book Value</b>						
At 31 December 2010	3,156	-	14,721	178,012	895,544	1,091,433

**Notes to the Financial Statements  
for the year ended 31 December 2011**

.....continued

	2011	2010
	Euro	Euro
<b>13. Receivables</b>		
Trade receivables	50,735	41,400
LES	20,533	15,670
Other receivables	41,679	10,297
Prepayments and accrued income	12,730	11,962
	<u>125,677</u>	<u>79,329</u>

**14. Cash and Equivalents**

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

	2011	2010
	Euro	Euro
Bank balances:		
ordinary funds	248,239	132,208
	<u>248,239</u>	<u>132,208</u>

	2011	2010
	Euro	Euro
<b>15. Payables</b>		
<b><i>Current Liability</i></b>		
Trade Payables	68,940	69,830
Accruals	266,872	20,436
Other Payables	3,420	-
Deferred Income	9,557	-
	<u>348,789</u>	<u>90,266</u>
<b><i>Non-Current Liability</i></b>		
Deferred Income	88,758	35,815
Long Term Borrowings	190,074	-
	<u>627,620</u>	<u>126,081</u>
<b>Total Payables</b>	<u>627,620</u>	<u>126,081</u>

**Trade Payable Aged Analysis**

Balance	Current	+30 Days	+60 Days	+90 Days	+120 Days
€68,940	€33,191	€1,760	€1,526	€1,706	€30,758

The amounts exceeding 120 days are due to the WasteServ Limited – 87% (amounts being contested by the council under directive of the Local Councils Association) and Architect D. Vassallo – 10%.

**Notes to the Financial Statements  
for the year ended 31 December 2011**

.....continued

	2011	2010
	Euro	Euro
<b>16. Capital Commitments</b>		
Approved for but not provided in financial statements		
Resurfacing Project under PPP scheme	156,367	-
Urban Improvements	2,000	2,000
Office Furniture for Civic Centre	2,000	2,000
Construction & Finishing works at Civic Centre	-	180,000

**17. Contingent Liabilities**

At period end, the council notes no contingent liabilities.

**18. Post Balance Sheet event**

There were no particular important events affecting the operation of the council since the end of the accounting period.

**19. Financial Risk Management**

Financial assets include equity, other receivables and cash held at bank and in hand. Financial liabilities include other payables and long-term borrowings.

**Financial risk management**

The Council is exposed to a variety of financial risks: market risk, credit risk and liquidity risk. The Council's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Council's financial performance.

The Council adopts an overall risk management to maintain and control its exposures.

*Market risk*

*i) Cash flow and fair value interest rate risk*

As the Council has no interest-bearing assets, the Council's income and operating cash flows are independent of changes in market interest rates. Although the Council has borrowings issued at fixed rates, the exposure to fair value interest rate risk is limited and ultimately endorsed by Central Government.

**Notes to the Financial Statements  
for the year ended 31 December 2011**

.....continued

**19. Financial Risk Management (continued)**

*ii) Credit Risk*

Credit risk on amounts receivable is limited through the systematic monitoring of outstanding balances and the presentation of debtors net of allowances for doubtful debts, where applicable. Cash is placed with reputable banks.

Credit risk arises ever increasing variances between the main council's income, that provided by Central Government, and the cost of its outsourced services which are mostly exposed to commodity risks. Furthermore the huge reduction of other revenue from LES, following its restructuring through central government, and Permits could well expose the Council even more to credit issues unless this shortfall is recovered from other sources.

The maximum exposure to credit risk at the reporting date in respect of the financial assets mentioned above is disclosed in the respective notes to the financial statements.

*iii) Fair Values*

As at 31<sup>st</sup> December 2011, the carrying amounts of financial assets and liabilities were not materially different from the carrying amounts.

*iv) Liquidity risk*

Management monitors liquidity risk by means of cash flow forecasts on the basis of expected cash flows over a twelve month period and ensures that no additional financing facilities are expected to be required over the coming year.

**20. Related Party Transactions**

**Identity of Related Parties**

Central Government- as per Local Councils Act 1993, is the major and ultimate controlling related party. All the Authorities set up by Central Government and all the entities which are owned by Central Government are considered to be related parties to the Siggiewi Local Council.

The Joint Committee, to which the Siggiewi Local Council was a member till 31<sup>st</sup> August 2011, is not considered to be a related party post 31<sup>st</sup> August 2011.

**Transactions with Related Parties**

	Central Government		LES	
	2011 EUR	2010 EUR	2011 EUR	2010 EUR
<b>Income</b>	(681,663)	(684,464)	(25,958)	(22,457)
<b>Amount Receivable</b>	-	41,400	19,368	15,670