MALTA RESOURCES AUTHORITY

Annual Report
2018

Contents

The Authority

Chairman

Mr. Mario J Azzopardi
BA (Hons.), MA (Fin.Ser.), B.Com., FIA, IIA, CPAA

Members

Dr. Simon Schembri B.A.
(Legal & Hum. Studies), LL.D., TEP

Ing. Paul Fenech
B.Mech.Eng. (Hons.), EurIng (FEANI) M.B.A. (Henley)

Mr. Frederick Cutajar

Ms. Paula Grech Bonnici
B.Sc (Hons.) Chemistry and Biology, M.Sc. Biology

The Chairman and Members of the Authority ended their tenure on the 28th August 2018.

Secretary

Dr. Kristina Camilleri Deguara

Chief Executive Officer

Ing. Anthony Rizzo B. Mech. Eng. (Hons.)

Chief Executive Officer's Review of Operations

This report is being prepared in accordance with the requirements of the MRA Act Chap. 423 Articles 18(1) and 24 and provides an overview of the activities of the Malta Resources Authority for the period 1st January 2018 to the 31st December 2018.

Regulatory Framework and Responsibilities.

During 2018 there were no changes to the regulatory framework and the Authority continued to fulfill its obligations under the MRA Act as amended in 2015. It also continued to act as the Inventory Agency responsible for compiling and submitting Malta's Greenhouse Gas Inventory and administer the Emissions Trading Scheme. The Authority continued to operate from its offices at Millennia Building, Aldo Moro Road Marsa.

Quality Management System.

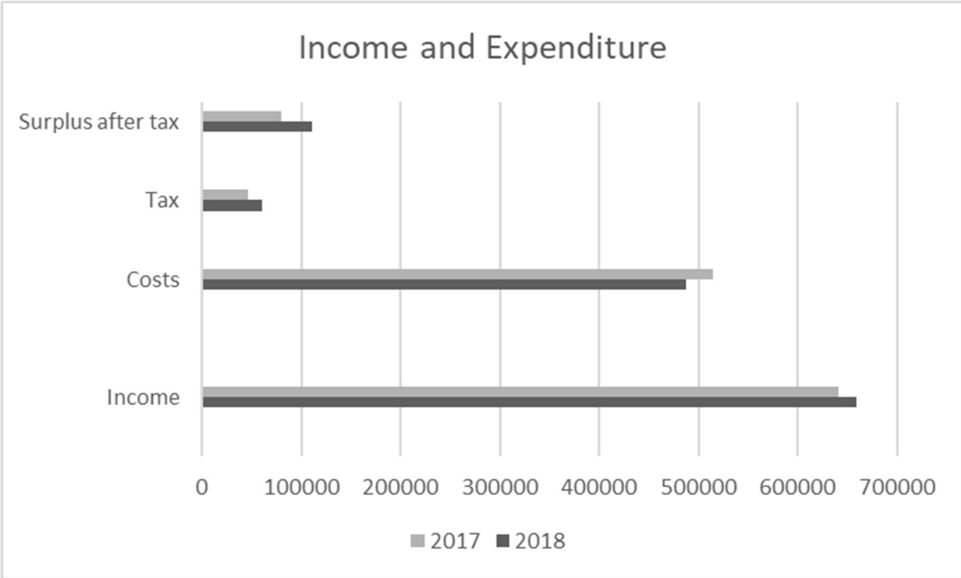
On the 12th January 2018 the Quality Management System (QMS) within the Climate Change Unit was certified that that it complies the requirements of SM EN ISO 9001:2015. The Quality Management system covers the compilation and reporting of Malta's national inventory of Malta's anthropogenic greenhouse gas emissions and removals.

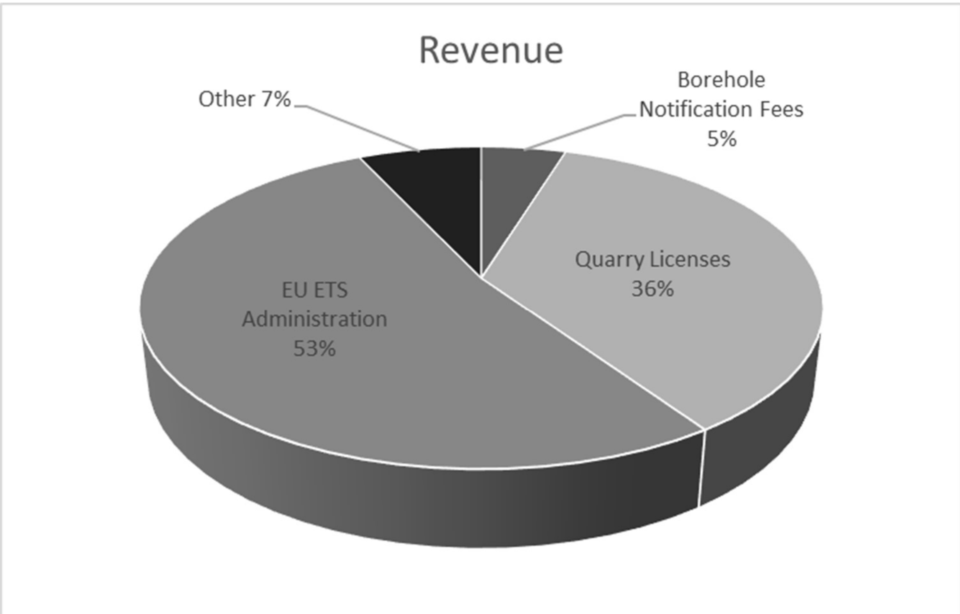
Human Resources - Capacity Building.

The headcount for the authority at the beginning of 2018 stood at thirteen, four in the Corporate and Regulation Section and nine, within the Climate Change Unit. Duirng 2018 there was one resignation which brought the head count to twelve.

Financial Resources.

During 2018 the Authority received a subvention from Government through the Environment and Resources Authority of €500, 000 and had an income of €147,720 from Quarry Licences and Emission Trading Scheme Administration. The Authority registered a surplus after tax of €111,003 during 2018.





Outlook for 2019

CORSIA

The Authority is expected to be formally designated as the competent authority for the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). CORSIA requires aircraft operators to monitor and verify emissions from all international flights on a global level and report the competent authority. The Authority will be required to approve the monitoring plans, calculation of operators' offsetting requirements, receive and check emissions data, reporting emissions data and cancellation information to ICAO, and performing general compliance monitoring of the regulation. Efforts to increase the capacity in the climate change unit are in hand for at least two additional employees to cover the additional responsibilities.

Merger with the Environment and Resources Authority

The merger of the Authority with Environment and Resources Authority is expected to take place during 2019. The plan and timing of the merger is being managed by ERA. However, the Authority provided its support to finalise the amendments to the Environment Protection Act (EPA) to ensure that all legal requirements within the MRA Act and its subsidiary legislation are transferred under the EPA.

Appreciation

I thank the Chairman, Members of the Authority and employees for their work and support throughout the year.

Corporate Matters

Litigation

No new court cases and or appeals were filed against the Authority during 2018.

Internal Control

Through due attention to budgeting and expenditure, the Authority maintained a stable financial base during the period under consideration. The Authority continued to focus on ensuring that all dues are collected in a timely manner.

Human Resources

The Authority recruited two additional persons during 2018. One employee resigned and another one is on sabbatical leave. At the end of December 2018, the total number of MRA employees was 13. The total number of sick leave availed of by MRA employees was 37 days.

During the year, the Authority provided training to one ICT student under the MITA student placement program.

ICT

During 2018, an ICT system continued to be developed and strengthened. Azure services continued to be used and integration of AD services implemented. Teleworking and remote connectivity facilities were improved with the introduction of two factor authentication and single sign on facility.

Regulation

Renewals, Permits and Notifications.

TABLE 1: RENEWALS

Renewals Quarries	**New**	**Renewal**	**Transfers**
Hardstone	1	27	0
Softstone	0	36	0

TABLE 2: ONE TIME REGISTRATIONS OR NOTIFICATIONS

Registrations / Notifications	**Number**
Registration of users of groundwater sources	11
Notification of a Groundwater Source	2

TABLE 3: PERMITS

Permits	**Requested**	**Accepted**	**Refused**	**Pending**
Application for the exportation of stone products	0	0	0	0
Application for the closure, sealing and decommissioning of a groundwater source	6	6	0	0
Sea-wells	1	1	0	0
Cleaning of boreholes and replacement boreholes	7	7	0	0
Geological/site investigations	18	18	0	0
Research	10	10		

Groundwater Sources Database.

During 2018, the Authority continued the process of overhauling the data held for groundwater sources. Related to this process, the Authority participated in the SintegraM project as one of the stakeholders. As part of this project, the Authority will be updating all its geographical data sets to one Coordinate Reference System.

Inspections and Enforcement.

During 2018, the Authority continued to take enforcement action as was considered necessary following cases of non-compliance. These cases were brought to the attention of the Authority by the public. In all cases where an alleged illegal drilling activity was taking place, officers from the Authority were present on site within two hours.

The Authority also received reports of abstraction from illegal sources. These reports were first checked against the MRA records of notified sources followed up with an on-site inspection. MRA officials requested the assistance of the Police Force in one investigation.

During the year, the Authority's officers also attended several Court sittings related mainly to enforcement duties in connection with groundwater abstraction. Officers also attended sittings of the Administrative Review Tribunal. Officers were called to testify in one civil case.

Consultation Requests from the Environment and Resources Authority.

The Malta Resources Authority continued to give regular consultation services on various permit applications received by the Planning authority and the Environment and Resources Authority (ERA). These permits include both development permits and operational Environmental Permits. The latter include consultations on the Integrated Pollution Prevention and Control (IPPC) Permits. Consultation mainly concerns issues of groundwater protection and the focus was on requests for developments in areas Outside Development Zones and developments which could give rise to environmental pollution especially with regards to groundwater or developments in disused quarries.

The MRA gave feedback within the limits of its remit under the MRA Act.

Inspire Directive.

During 2018, the Authority continued to collaborate with MITA to upload geo-referenced data related to quarries. Since the MRA does not have the necessary infrastructure to host spatial datasets files on the web server and make them available to the public, the data is provided through the Malta Spatial Data Infrastructure, a portal that offers web services to the public, public service and public-sector organisations.

The uploading of Spatial data is one of the requirements of the Inspire Directive, formally known as European Directive 2007/2/EC. The Directive establishes an Infrastructure for Spatial Information in the European Union. The intention of INSPIRE is to create a European Union (EU) spatial data infrastructure (SDI) that facilitates the sharing of environmental spatial information across public sector organisations (at a national and international level) and improves public access to spatial information across Europe.

At this point, only point data regarding quarries duly holding a trading licence by the MRA was uploaded. Additional information, including data on groundwater sources, will be uploaded once more information is available and verified.

Climate Change

The work of the MRA in the area of climate change during 2018 was primarily focussed on consolidating the implementation of the Authority's core functions, including the preparation of the national inventory of anthropogenic greenhouse gas emissions and removals (national GHG inventory) and the continued administration of the EU emissions trading system (EU ETS) for stationary installations and aircraft operators. Other work carried out by the Climate Change Unit of the MRA included the technical support given to the drafting of Malta's first National Energy and Climate Plan (NECP) under the EU's Energy Union Governance Regulation, preparation of other reports arising from EU climate action legislation and input given towards EU and national policy and legislative processes.

Monitoring and reporting of national greenhouse gas emissions and removals.

An important deliverable for 2018 was the submission (in January and March, to the European Commission; in April, to the United Nations Framework Convention on Climate Change) of the national GHG inventory covering the time-series 1990-2016 and the preparation of the submission due in 2019.

In February of 2018, the MRA's GHG inventory quality system was ISO certified. This was an important milestone in the efforts undertaken by the MRA in ensuring that it fulfils its roles and responsibility of national GHG Inventory Agency to the highest possible quality standards. This step was supported by an emphasis on capacity building. Two new members of staff were recruited to focus particularly on inventory work. Staff also benefitted from a number of visits by inventory experts organised under the auspices of the European Commission. Furthermore, the MRA initiated a capacity building project with a UK consultancy company to provide further training to GHG inventory compilers, set up tools to enhance the quality assurance and quality control work that the Climate Change Unit performs in the context of GHG inventory work, and provide advice on, and support implementation of, best practices in GHG inventory preparation and management. The MRA has extended the scope of this project to also include training and provision of similar support to the Environment and Resources Authority which is responsible for the preparation of annual inventories of air pollutants.

While GHG inventories relate to the monitoring and reporting of historic greenhouse gas trends, work has also been performed by the Climate Change Unit on projections of future trends of emissions and removals of greenhouse gases: this was the main technical support given by staff of the MRA to the drafting of Malta's first NECP under the Energy Union Governance Regulation. With support provided by external experts, the MRA has enhanced its capacity relating to projections for the sectors Industrial

Processes and Product Use (IPPU), Agriculture Land Use, Land-use Change and Forestry (LULUCF), and Waste, by improving on existing modelling tools and delivering a first set of sector-specific projections.

The MRA was also the coordinator and lead drafter of the first National Forestry Accounting Plan (NFAP) of Malta pursuant to the LULUCF Regulation, including the determination of Malta's Forest Reference Level. The work of MRA staff again benefitted from support given by external experts engaged by the European Commission, also providing an opportunity to better engage with relevant stakeholders in the area of forestry management in Malta.

Implementing Market-based Measures.

As the designated national competent authority for the EU ETS, the MRA continued to fulfil routine administrative roles, including the receipt, review and acceptance of annual emissions reports from operators of stationary installations and aircraft operators administered by Malta, providing ongoing helpdesk support to operators and, as the national registry administrator, administering registry functions. Under this latter role, the MRA was faced with a substantial increase in the number of applications for the opening of person holding and trading accounts in the Maltese registry, due in particular to the uncertainties surrounding Brexit which resulted in UK account holders wanting to transfer assets to other EU Member States. It is also worth noting that 2018 saw the number of local stationary installations falling within the scope of the EU ETS increasing to four, and the commencement of generation of electricity using natural gas: this entailed important revisions to existing permits and monitoring plans, the issuance of new permits and approval of new monitoring plans, and consequently also the doubling of work relating to emission reports. The MRA made every effort to perform its ETS and registry roles in a seamless and efficient manner despite limited resources.

Preparatory work was also initiated, in conjunction with the Civil Aviation Directorate of Transport Malta, regarding the implementation of the International Civil Aviation Organisation's Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). This will be implemented in parallel with the EU ETS for aviation. MRA staff participated in training provided by ICAO on CORSIA and was actively involved in the technical discussions held at EU level on the implementation of CORSIA, apart from also being actively involved in the discussions on new implementing and delegated acts arising from the EU ETS Directive. The implementation of CORSIA and parallel continued administration of the EU ETS represents a substantial increase in the responsibilities of the MRA in future years.

Legislative Framework

The following is the legislative framework for the Authority. There were no changes to the legislative framework during 2018

Cap. 423 Malta Resources Authority Act

S.L. 423.12 Notification of Groundwater Sources Regulations

S.L. 423.32 Borehole Drilling and Excavation Works within the Saturated Zone Regulations

S.L. 423.40 Groundwater Abstraction (Metering) Regulations

S.L. 423.41 Assessment and Management of Flood Risks Regulations

S.L. 423.45 Users of Groundwater Sources (Application) Regulations

S.L. 423.48 Lifecycle Greenhouse Emissions from Fuels Regulations

S.L. 423.50 European Union Greenhouse Gas Emissions Trading Scheme for Stationary Installations Regulations

S.L. 423.51 European Union Greenhouse Gas Emissions Trading Scheme for Aviation Regulations

Financial Estimates 2019

	2018 ACTUAL EURO	2019 ESTIMATE EURO
Income	658,757	615,000
Net Direct Expenditure	3,537	31,800
Staff Costs	384,784	448,967
Other Administrative Expenses	89,160	101,265
Depreciation	9,884	5,426
Surplus before Tax	**171,392**	**27,542**

Audited Financial Statements 2018

MALTA RESOURCES AUTHORITY

Annual Report and Financial Statements
31 December 2018

Chief Executive Officer report

The Chief Executive Officer presents his report and the audited financial statements for the year ended 31 December 2018.

Principal activities

The Malta Resources Authority (MRA) is a public corporate body with regulatory responsibilities relating to water, energy and mineral resources in the Maltese Islands. It was set up by the Maltese Parliament through the Malta Resources Authority Act, Chapter 423. The MRA has a wide range of responsibilities essentially involving regulation of water and energy utilities, quarry operations, the protection of groundwater, the regulation of retailers, operations and tradesmen in the regulated sectors.

Review of the operations

During the year under review the Authority received revenues from licences and contributions of €158,757 (2017: €141,770) and €500,000 (2017: €499,999) as subvention. These revenues are generated in support of the Authority's regulatory responsibilities. The Authority registered a surplus after tax for the year of €111,003 (2017: €80,477).

Results and surplus funds

The statement of comprehensive income is set out on page 7. The surplus for the year amounted to €111,003 (2017: €80,477).

Board members

The board members of the Authority who held office during the year were:

Mr. Mario J. Azzopardi (Chairman)
Dr. Simon Schembri
Ing. Paul Fenech
Mr. Frederick Cutajar
Paula Grech Bonnici

The minister has authorised the Chief Executive Officer to prepare and to approve these financial statements on behalf of the Authority. The Board members of the Authority ended their tenure on 28 August 2018.

Chief Executive Officer report - continued

Statement of Chief Executive Officer's responsibilities

In preparing the financial statements the Chief Executive Officer is responsible for;

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU and the Malta Resources Authority Act;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Authority will continue in operation as a going concern.

The Chief Executive Officer and the Board are also responsible for designing, implementing and maintaining internal control as the Chief Executive Officer and the Board determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Malta Resources Authority Act. They are also responsible for safeguarding the assets of the Authority and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of the Authority for the year ended 31 December 2018 are included in the Annual Report 2018, which is published in hard-copy printed form and may be made available on the Authority's website. The Chief Executive Officer is responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Authority's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed.

On behalf of the Authority

Ing. Anthony Rizzo
Chief Executive Officer

Registered office
Malta Resources Authority
Millennia, 2nd Floor
Aldo Moro Road
Marsa MRS 9065
Malta

15 March 2019

pwc

Independent auditor's report

To the Stakeholders of the Malta Resources Authority

Report on the audit of the financial statements

Our opinion

In our opinion:

- The Malta Resources Authority's financial statements give a true and fair view of the authority's financial position as at 31 December 2018, and of the authority's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Malta Resources Authority Act.

What we have audited

The Malta Resources Authority's financial statements, set out on pages 6 to 27, comprise:

- the statement of financial position as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the authority in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.

Other information

The Chief Executive Officer is responsible for the other information. The other information comprises the annual report and Chief Executive Officer's report, which we obtained prior to the date of this auditor's report. Our opinion on the financial statements does not cover the other information, including the annual report and Chief Executive Officer's report.

Statement of changes in equity

	Accumulated surplus €
Balance at 1 January 2017	29,065
Comprehensive income	
Surplus for the year	80,477
Balance at 31 December 2017	**109,542**
Balance at 1 January 2018	109,542
Comprehensive income	
Surplus for the year	111,003
Balance at 31 December 2018	**220,545**

The notes on pages 10 to 27 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 December 2018 €	2017 €
Cash flows generated from operating activities			
Cash generated from operations	14	**137,402**	182,829
Net income tax (paid)/refunded		**(39,566)**	51,907
Net cash generated from operating activities		**97,836**	234,736
Cash flows used in investing activities			
Purchase of property, plant and equipment	4	**(19,555)**	(2,103)
Net cash used in investing activities		**(19,555)**	(2,103)
Net movement in cash and cash equivalents		**78,281**	232,633
Cash and cash equivalents at beginning of year		**324,877**	92,244
Cash and cash equivalents at end of year	6	**403,158**	324,877

The notes on pages 10 to 27 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

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.

1.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Malta Resources Authority Act. They have been prepared under the historical cost.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the Chief Executive Officer to exercise judgement in the process of applying the Authority's accounting policies (see Note 3 – Critical accounting estimates and judgements).

1.1.1 Changes in accounting policies and disclosures

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Authority's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Standards, interpretations and amendments to published standards effective in 2018

In 2018, the Authority adopted new standards, amendments and interpretations to existing standards that are mandatory for the Authority's accounting period beginning on 1 January 2018. With the exception of IFRS 9, Financial instruments, the adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Authority's accounting policies.

IFRS 9 replaced the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement; the Authority adopted IFRS 9 on 1 January 2018, which is the date of initial application of the standard. IFRS 9 has resulted in changes in accounting policies related to the classification and measurement and impairment of financial assets. The Authority has taken advantage of the exemption in IFRS 9 allowing it not to restate comparative information for prior periods with respect to classification and measurement and impairment charges.

1. **Summary of significant accounting policies** - continued

1.1 Basis of preparation and going concern - continued

1.1.1 Changes in accounting policies and disclosures - continued

(a) Classification of Financial assets under IFRS 9

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. It contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available-for-sale.

The transition from IAS 39 to IFRS 9 did not have a material impact on the measurement of financial assets, the differences between IAS 39 and IFRS 9 consists solely of reclassifications. Reclassification adjustments reflect the movement of balances between categories of financial assets with no impact to shareholders' equity. There is no change to the carrying value of financial instruments as a result of reclassifications.

The application of IFRS 9 resulted in the reclassification of all the Authority's financial assets from the 'Loans and receivables' category in IAS 39 to 'Financial assets at amortised cost' under IFRS 9. These assets comprise loans receivable, other receivables and cash and cash equivalents.

The new classification requirements have not had a material impact on the Authority's accounting for loans and receivables, which continued to be measured at amortised cost upon the adoption of IFRS 9, and they did not have an impact on the classification of the Authority's financial liabilities.

The changes in classification accordingly had no impact on the Authority's equity and tax balances.

(b) Impairment

IFRS 9 replaced the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to the Authority's financial assets measured at amortised cost. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The impact on the Authority of this change in the impairment model is not significant in view of the high quality of the counterparties to which the Authority is exposed to credit risk, and the loss allowance is not material.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements that are mandatory for the Authority's accounting periods beginning after 1 January 2018. The Authority has not early adopted these revisions to the requirements of IFRSs as adopted by the EU.

The Chief Executive Officer is of the opinion that there are no requirements that will have a possible significant impact on the Authority's financial statements in the period of initial application.

1. **Summary of significant accounting policies** - continued

1.2 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in euro, which is the Authority's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

All foreign exchange gains or losses are presented in the income statement.

1.3 Property, plant and equipment

All property, plant and equipment is initially recorded at historical cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount 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 Authority and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Items of property plant and equipment comprise leasehold improvements, computer equipment, computer software, motor vehicles, and furniture, fixtures and other equipment and are initially recognised at acquisition cost. Subsequently they are carried at acquisition cost less subsequent depreciation and impairment losses.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amount to their residual values over their estimated useful lives, as follows:

	%
Motor vehicles	20
Furniture, fixtures and other equipment	10 - 30

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised in profit or loss.

1. **Summary of significant accounting policies** - continued

1.4 Financial assets and liabilities

1.4.1 Recognition, initial measurement and derecognition of financial assets

Receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Authority becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

All purchases and sales of investments are recognised on the trade date, which is the date that the Authority commits to purchase or sell the assets. Investments are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Authority has also transferred substantially all risks and rewards of ownership.

1.4.2 Classification of financial assets

Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Authority changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Authority classifies its financial assets as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows, and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

Investments in debt instruments are classified at fair value through other comprehensive income (FVOCI) only if the contractual cash flows are solely principal and interest and the objective of the Authority's business model is achieved both by collecting contractual cash flows and selling financial assets.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Authority may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

1. **Summary of significant accounting policies** - continued

1.4 Financial assets and liabilities - continued

1.4.2 Classification of financial assets - continued

Business model assessment

The Authority makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Authority's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Authority's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Authority considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Authority considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Authority's claim to cash flows from specified assets (e.g. non-recourse features).

1. **Summary of significant accounting policies** - continued

1.4 Financial assets and liabilities - continued

1.4.2 Classification of financial assets - continued

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Policy applicable up to 31 December 2017

The Authority classified its financial assets in the loans and receivables category. The classification depended on the purpose for which the financial assets were acquired. Management determined the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arose when the Authority provides money, goods or services directly to a debtor with no intention of trading the asset. They were included in current assets, except for maturities greater than twelve months after the end of the reporting period. These were classified as non-current assets. The Authority's loans and receivables comprised loans to related parties, other receivables and cash and cash equivalents in the statement of financial position.

Issued financial instruments or their components, which were not designated at FVTPL were classified as other financial liabilities, where the substance of the contractual arrangement resulted in the Authority having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

1.4.3 Subsequent measurement of financial assets

Financial assets at amortised cost, including loans and receivables up to 31 December 2017, are subsequently measured at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

1. **Summary of significant accounting policies** - continued

1.4 Financial assets and liabilities - continued

1.4.4 Impairment of financial assets

Policy applicable from 1 January 2018

The Authority recognises loss allowances for ECLs on financial assets measured at amortised cost and debt investments measured at FVOCI to which the Authority is exposed. It measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Authority considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Authority's historical experience and informed credit assessment and including forward-looking information.

The Authority assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, and it considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Authority in full, without recourse by the Authority to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Authority considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally-understood definition of 'investment grade'. The Authority considers this to be Baa3 or higher per Moody's or BBB- or higher per Standard & Poor's or Fitch.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Authority is exposed to credit risk.

Measurement of ECL

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Authority expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

1. **Summary of significant accounting policies** - continued

1.4 Financial assets and liabilities - continued

1.4.4 Impairment of financial assets - continued

Credit-impaired financial assets

At each reporting date, the Authority assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Authority on terms that the Authority would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

Write-off

The gross carrying amount of a financial asset is written off when the Authority has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For each of its financial assets that subject the Authority to credit risk, it makes an individual assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Authority expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Authority's procedures for recovery of amounts due.

1. **Summary of significant accounting policies** - continued

1.4 Financial assets and liabilities - continued

1.4.4 Impairment of financial assets - continued

Policy applicable up to 31 December 2017

The Authority assessed at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets was impaired and impairment losses are incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. The Authority first assessed whether objective evidence of impairment exists. The criteria that the Authority used to determine that there is objective evidence of an impairment loss included:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; and
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

The Authority first assessed whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Authority determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it included the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment loss. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised were not included in a collective assessment of impairment.

For financial assets carried at amortised cost, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount was reduced and the amount of the loss was recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreased and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

1. Summary of significant accounting policies - continued

1.4 Financial assets and liabilities - continued

1.4.5 Financial liabilities

Issued financial instruments or their components, which are not designated at FVTPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Authority having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in statement of comprehensive income.

1.5 Impairment of non-financial assets

Assets that are subject to amortisation 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 asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

1.6 Trade and other receivables

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 in accordance with the accounting policy disclosed in note 1.4.4.

1.7 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value. In the statement of cash flows, cash and cash equivalents include deposits held at call with banks.

1.8 Trade and other payables

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of operations from suppliers and service providers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1. **Summary of significant accounting policies** - continued

1.9 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.10 Provisions

Provisions for legal claims are recognised when the Authority has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1.11 Revenue recognition

Revenue is recognised when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, the costs incurred or to be incurred can be measured reliably, and when the criteria for the Authority's activities has been met.

(i) Income from licences and reimbursements for expenses to administer various schemes are recognised on an accrual basis.
(ii) Interest income from investments is reported on an accrual basis using the effective interest method.

1.12 Operating expenses

Operating expenses are recognised in the income statement upon utilisation of the service rendered.

2. Financial risk management

2.1 Financial risk factors

The Authority's activities potentially expose it to a variety of financial risks namely market risk (cash flow and fair value interest rate risk), credit risk and liquidity risk. The Authority's risk management is coordinated by the Chief Executive Officer and focuses on actively securing the Authority's short to medium term cash flows by minimising the exposure to financial markets.

The Authority does not actively engage in trading of financial assets for speculative purposes nor does it write options. The most significant financial risks that the Authority is exposed to are described below.

(a) Cash flow and fair value interest rate risk

The Authority has no significant interest-bearing assets and liabilities, and its income and operating cash flows are substantially independent of changes in market interest rates.

(b) Credit risk

The Authority's exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below. The Authority's exposures to credit risk as at the end of the reporting periods are analysed as follows:

Financial assets measured at amortised cost (classified as loans and receivables in 2017):	**2018**	2017
	€	€
Cash and cash equivalents (Note 6)	**403,158**	324,877

The Authority applies the low credit risk simplification for all instruments that are externally rated at a rating of BBB- (or equivalent) or better; and the ECL provision for these instruments is accordingly measured at an amount equivalent to the 12-month ECLs. The Authority thus applies the simplification for its bank deposits.

(c) Liquidity risk

The Authority is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise trade and other payables (Note 8). Prudent liquidity risk management includes maintaining sufficient cash reserves to ensure the availability of an adequate amount of funding to meet the Authority's obligations.

The Authority 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 Authority's liquidity risk is not deemed material in view of the matching of cash inflows and outflows arising from expected maturities of financial instruments and commitments.

2. Financial risk management - continued

2.2 Capital risk management

The Authority's equity, which constitutes its capital base, as disclosed in the statement of financial position. The Authority's objectives when managing capital are to safeguard the respective entity's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In accordance with section 14(3) of the provisions of the Malta Resources Authority Act, the Authority shall be paid by the Government of Malta out of the Consolidated Fund such sums as Parliament may from time to time authorise to be appropriated to meet any of its expenditure that cannot be met out of its revenue and the costs of specified works to be continued or otherwise carried out by the Authority, being works of infrastructure or a similar capital nature.

2.3 Fair values of financial instruments

At 31 December 2018 and 2017 the carrying amounts of cash at bank, receivables, payables and accrued expenses reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

3. 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 Chief Executive Officer, 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.

4. Property, plant and equipment

	Furniture, fixtures and other equipment €	Motor vehicles €	Total €
At 1 January 2017			
Cost or valuation	21,641	-	21,641
Accumulated depreciation	(7,393)	-	(7,393)
Net book amount	14,248	-	14,248
Year ended 31 December 2017			
Opening net book amount	14,248	-	14,248
Additions	2,103	-	2,103
Depreciation charge	(7,006)	-	(7,006)
Closing net book amount	9,345	-	9,345
At 1 January 2018			
Cost or valuation	23,744	-	23,744
Accumulated depreciation	(14,399)	-	(14,399)
Net book amount	9,345	-	9,345
Year ended 31 December 2018			
Opening net book amount	9,345	-	9,345
Additions	-	19,555	19,555
Depreciation charge	(5,924)	(3,960)	(9,884)
Closing net book amount	**3,421**	**15,595**	**19,016**
At 31 December 2018			
Cost or valuation	23,744	19,555	43,299
Accumulated depreciation	(20,323)	(3,960)	(24,283)
Net book amount	**3,421**	**15,595**	**19,016**

5. Trade and other receivables

	2018 **€**	2017 €
Current		
Prepayments and accrued income	**6,212**	4,440

6. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2018 €	2017 €
Cash and cash equivalents	**403,158**	324,877

7. Accumulated surplus

	2018 €	2017 €
Balance as at 1 January	**109,542**	29,065
Surplus for the year	**111,003**	80,477
As at 31 December	**220,545**	109,542

8. Trade and other payables

	2018 €	2017 €
Current		
Trade and other payables	**17,209**	29,474
Amounts owed to related party	**32,691**	89,221
Accruals and deferred income	**114,713**	88,020
	164,613	206,715

Amounts owed to related party are unsecured, interest free and repayable within the next year.

9. Revenue

In 2018, the Authority received a subvention amounting to €500,000 (2017: €499,999) from the Government of Malta to cover its operational costs.

10. Expenses by nature

	2018 €	2017 €
Direct expenditure	**3,537**	32,952
Employee benefit expense (Note 11)	**384,784**	386,217
Depreciation of property, plant and equipment (Note 4)	**9,884**	7,006
Rent payable	**15,756**	15,756
Travelling expenses	**5,818**	32,852
Insurance costs	**4,325**	10,060
Motor vehicle expenses	**8,971**	7,978
Other expenses	**54,290**	21,984
Total excess expenditure, direct expenditure and administrative expenses	**487,365**	514,805

Auditor's fees

Fees charged by the auditor for services rendered during the financial periods ended 31 December 2018 and 2017 relate to the following:

	2018 €	2017 €
Annual statutory audit	**2,000**	2,000

11. Employee benefit expense

	2018 €	2017 €
Wages and salaries	**367,307**	369,020
Social security costs	**17,477**	17,197
	384,784	386,217

Average number of persons employed by the Authority during the year:

	2018	2017
Board members	**5**	5
Board secretary	**1**	1
Operations	**9**	9
	15	15

Salary expenses relating to staff seconded from and with Government entities amounting to €64,287 (2017: €77,642) are included above.

12. Board remuneration

	2018	2017
	€	€
Board members' honoraria	**20,642**	28,000
Board secretary's honoraria	**2,700**	3,000
	23,342	31,000

13. Tax expense

	2018	2017
	€	€
Current tax	**60,389**	46,487

The tax on the Authority's surplus before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2018	2017
	€	€
Surplus for the year before tax	**171,392**	126,964
Tax on surplus at 35%	**59,987**	44,437
Tax effect of:		
Under provision in previous year	**-**	1,675
Movement in unrecognised deferred tax assets	**402**	375
Tax expense	**60,389**	46,487

The authority also had net deductible temporary differences on provisions and property, plant and equipment as at 31 December 2018 amounting to €3,260 (2017: €2,111). The resulting deferred tax asset of €1,141 (2017: €739) has not been recognised in these financial statements due to the uncertainty of the realisation of these tax benefits.

14. Cash generated from operations

Reconciliation of operating surplus generated from operations:

	2018 €	2017 €
Operating surplus	**171,392**	126,964
Adjustments for:		
Depreciation of property, plant and equipment (Note 4)	**9,884**	7,006
Changes in working capital:		
Trade and other receivables	**(1,772)**	50
Trade and other payables	**(42,102)**	48,809
Cash generated from operations	**137,402**	182,829

15. Contingencies

Due to the nature of its functions, the Authority is currently a co-defendant vis-à-vis several cases. The Board notes that the attribution of responsibility, if any, in these court cases is still undetermined. Thus, quantification of any potential liability is premature and hence no provision has been recognised in these financial statements.

16. Related party transactions

The Malta Resources Authority is an autonomous public institution and reports to Parliament on an annual basis. The Board members of the Authority are appointed by the Government of Malta.

During the period under review, the Authority entered into transactions with a number of Government-related entities. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantee was given or received. Outstanding balances are usually settled in cash.

The Regulator for Energy and Water Services (REWS) and the Government of Malta are considered to be a related parties. The following transactions were carried out by the Authority with the related parties during the year:

	2018 €	2017 €
Subventions (Note 9)	**500,000**	499,999

As at 31 December 2018, the Authority had an outstanding balance with the Regulator as disclosed in note 8.

Key management personnel compensation, consisting of board members' remuneration, has been disclosed in note 12 to the financial statements.