

SUMMARY

Summary of Report 17/2017, relating to the General Account of the Government of Catalonia, year 2015

Barcelona, 16 November 2017

The Public Audit Office for Catalonia has issued Report 17/2017, relating to the General Account of the Government of Catalonia (*Generalitat*) for financial year 2015, in accordance with its Annual Programme of Activities.

The report, which was presented by the Chairman, Mr Jaume Amat, was approved by the Audit Office Board at its meeting on 13 September 2017, with a concurring vote, involving matters of reasoning, by Board Member Mr Jordi Pons.

The purpose of the report is to issue an opinion on whether the accounting and financial information presented conformed to applicable accounting principles and also on whether it was compliant with legislation. The report also proposes measures of a general nature considered necessary to improve the Catalan Government's performance.

The General Account of the Government of Catalonia for the 2015 financial year, which was presented before the legal deadline by the Comptroller General's Office (*Intervenció General*) (IGGC), comprises the following accounts:

- The General Government Administration (GGA) Account;
- The annual accounts of the Catalan Health Service (CatSalut) and the autonomous administrative agencies;
- The annual accounts of the public consortia attached to the Catalan Government.

This represents a few changes with respect to the provisions of article 80 of the Catalan Public Finance Act, which have occurred for the following reasons:

- The Budget Act for 2015 did not include the budgets for the Social Security management entities: the Catalan Institute of Social Services and Assistance (ICASS), the Catalan Health Institute (ICS) and CatSalut. ICASS was dissolved by Act 2/2014, of 24 January, to take effect, in accounting terms, as from 1 January 2015. The ICS budget was reclassified in the Budget Act for 2015 so as to be included with the budgets of statutory entities subject to ordinary civil law according to their legal status. Although this meant it was no longer part of the General Account, and was not included in the consolidated accounts, the IGGC submitted its accounts in an appendix. The CatSalut budget was included under a new section of the Budget Act covering the budgets of both CatSalut and the autonomous administrative agencies.

- The Local Government Rationalisation and Sustainability Act (Act 27/2013) stipulates that the annual accounts of public consortia must be included in the General Account of the government administration they are formally attached to. Thus, the IGGC has appended to the General Account for the Government of Catalonia for 2015 the annual accounts of the consortia which, at the close of year 2015, were considered to be attached to the Catalan Government.

The first part of the report, in sections 2 to 6, therefore shows two new features compared to previous years: section 5, which now covers CatSalut and the autonomous administrative agencies, and section 6, which details the work carried out relating to consortia attached to the Catalan Government. The results of the audit work for these sections, with the limitations described in the report, serve to allow an opinion to be expressed on how well the accounts presented conform to statutory requirements and on legal compliance in the spheres of accounting and finance.

In fulfilment of the Public Finance Act, the Public Audit Office has appended to the contents of the General Account submitted by the IGGC the accounts of the autonomous agencies of a commercial, industrial, financial or similar nature; the accounts of public enterprises; the accounts of other statutory entities; and the general accounts of provincial councils (*diputacions*).

The result of the audit work carried out allows the report to state that, in accordance with the aim, scope and methodology used, the Audit Office's opinion is that, except for the possible effects of the limitations described in findings 6, 15, 18, 20, 24 and 25 and for the effects of the matters described in findings 11, 16, 21 and 22, the General Account, as audited within the scope described in sections 1.2, 5 and 6 of the report, represents in all significant aspects a true and fair view of the assets and financial position of the Government of Catalonia as at 31 December 2015, and also of its results, cash flow and budget outturn corresponding to the financial year ending on that date, in accordance with the relevant financial reporting regulatory framework and, in particular, the accounting principles and criteria contained in that framework.

According to the data presented by the IGGC, the consolidated budgetary result for year 2015 shows non-financial recognised commitments (expenditures) of €29,016m and non-financial realised receipts (revenues) of €23,695m, with a non-financial deficit of €5,321m, which is an increase on year 2014, when it was €3,709m.

Consolidated financial debt currently outstanding according to effective values in year 2015 stood at €61,801m, which was an increase of 13% on year 2014.

Consolidated budgetary year-end net working capital (*romanent de tresoreria*) for 2015 came to minus €2,408m.

The Conclusions section of the report brings together twenty-eight findings arising from the audit work carried out. The most significant ones are as follows:

- The funding requirements for the 2015 financial year, as calculated using the criteria of the European System of National and Regional Accounts (ESA), worked out at €5,879m, representing a deficit equivalent to 2.87% of Catalonia's gross domestic product (GDP),

when the objective was 0.7%. There was also a failure to comply with the objectives for public debt (35.7% when the objective was 34.5%) and the expenditure rule (an increase of 10.3% in expenditure levels relative to the previous year, when the limit, based on medium term GDP growth for the Spanish economy used as a reference point, was 1.3%).

- In accordance with the criteria laid down by the ESA, the Spanish State's Comptroller General's Office (IGAE) made a €1,536m adjustment to the final 2015 budget balance, because it considered that certain land rights held by the Catalan Government (established in previous years) had to be considered public investment, and a €419m adjustment to the Metropolitan Transport Authority (ATM), because it considered a series of contracts to lease trains to be financial leasing. The IGGC did not include infrastructures and public facilities, which were considered public investment, in the Balance Sheet it drew up; once these have been built, each year the IGGC accounts for the expenditure arising from paying leases or periodical charges and includes future outlays in the statement of expenditure commitments for future years.
- The GGA and CatSalut budget outturns failed to include part of the expenditure incurred during the year, due to lack of sufficient budgetary allocations. Expenditure incurred during year 2015 but not put on the books came to €1,331m, of which €726m was for CatSalut. Expenditure incurred in 2014 and accounted for in 2015 came to €2,917m.
- The statement for budgetary year-end net working capital (*romanent de tresoreria*) does not distinguish between earmarked and non-earmarked funds. Consolidated budgetary year-end net working capital as at 31 December 2015 was minus €2,408M, which represented an increase of 20% in relation to 2014, and gave rise to liquidity problems.
- The amount for budget group 9 in the statement of expenditure commitments for future financial years presented by the IGGC did not coincide with the figure for the principal included in the calculations of future debt financing costs presented by the Directorate-General for Finance Policy. The difference is explained by the fact that the IGGC's data was obtained at different dates to when the year's accounts were closed; this caused the figure to be undervalued by approximately €3,133m.
- The 31 December 2015 figure for risk exposure from bank guarantees issued was €3,785m, still at a high level.
- Catalonia's GGA was still using the General Public Accounting Plan for the Catalan Government approved in 1996. It was on 29 of June 2017 that Departmental Order VEH/137/2017 approved the new General Public Accounting Plan for the Catalan Government.
- The governmental public sector needs to improve its inventories and update them so that they coincide with the figures in the accounts.
- The GGA figure for permanent financial investments included a series of amounts which the Audit Office considers should have been accounted for when the transactions occurred as part of the result for the year; they should not, therefore, have been included in this Balance Sheet item.

- The final results of the programme-contracts for 2009-2010, 2011-2012 and 2013, between the Spanish central government and the Metropolitan Transport Authority envisaged that the public transport system would generate a deficit estimated at €523m as at 31 December 2015. The GGA does not have any liability item on its books under this heading.
- In the General Account submitted to the Audit Office the IGGC did not include the annual accounts and audit reports of eighteen consortia which it considered attached to the Government.
- By 31 of March 2017 only thirty-eight of the sixty-seven consortia analysed had adapted their statutes. All the adaptations were undertaken after 31 December 2014, which was the statutorily defined deadline.

The Audit Office's report also highlights six improvements in regard to the findings it included in its report on the General Account for year 2014.

The Audit Office recommends that corrective measures are taken to resolve the deficiencies detected, and also notes the delicate financial position of the Catalan Government as at 31 December 2015, bearing in mind its funding needs, its negative budgetary year-end net working capital and negative equity, its high financial debt levels and its statement of expenditure commitments payable in future years.

Some of the most significant data for the Government Administration Account are as follows:

- The Budget Outturn showed realised receipts (revenues) of €36,022m and recognised commitments (expenditures) of €35,853m.
- As at 31 December 2015 Catalan Government staffing levels stood at 123,614 employees, compared to 121,306 the previous year. The number of tenured civil service employees fell by 2.9% and staff on a permanent labour contract increased by 13.9%, while staff in interim civil service posts increased by 17.4%.
- During the 2015 financial year, the Catalan Government continued to use different extraordinary funding mechanisms set up by the Spanish central Government; prominent among these was an ICO loan of €11,293m from the Liquidity Fund for Regional Government.
- Of the €63,840m total financial debt owed by the Catalan Government as at 31 December 2015, €43,343m was debt corresponding to financing funds set up by Spain's central government.
- The statement of acquired expenditure commitments affecting future financial years totalled €103,521m for year 2015, an increase of 1.9% on the 2014 figure.
- As regards public sector procurement undertaken by the Catalan Government and its public sector, in year 2015 a total of 34,663 contracts were awarded, worth a combined total of €2,529m.

This summary is solely for information purposes. The audit report (in Catalan and Spanish) can be consulted at www.sindicatura.cat.