
SUMMARY

Summary of report 14/2015, relating to the water company Aigües Ter Llobregat, years 2010 and 2011

Barcelona, 1 September 2015

The Public Audit Office for Catalonia has issued report 14/2015, relating to the water company Aigües Ter Llobregat (ATLL), for financial years 2010 and 2011, in accordance with its Annual Programme of Activities.

The report, presented by Board Member Mr Miquel Salazar, was approved by the Audit Office Board at its meeting on 22 June 2015.

The material scope of the audit consisted in an analysis of the financial statements to check that they adequately reflected the assets and financial position of the organisation and that they included all necessary and sufficient data to be properly understood and interpreted; an analysis of the budget outturn, including an assessment on whether it had been correctly produced in accounting and financial terms; and an analysis of legal compliance in regard to both accounting, tax and budgetary requirements and to its operations, particularly those relating to procurement.

In the period audited, ATLL was a statutory entity of the Government of Catalonia (*Generalitat*), reporting through the Catalan Water Agency (ACA) to the Department for the Environment and Housing, until a restructuring in December 2010, which led to it reporting to the Department for Territory and Sustainability.

The company aims for ATLL were the combined coordinated management of concessions for the bulk supplying of water to towns included in the territorial area defined by Statutory Decree (*Decret legislatiu*) number 3/2003, and providing the public service, within the sphere of the Government of Catalonia's powers, for producing and supplying drinking water to towns in the distribution network of the Ter and Llobregat rivers.

It should be noted that, after the period covered by the audit, ATLL was dissolved and, as from 1 January 2013, both management and delivery of the public service for water supply were privatised as a governmental concession. The awarding of this concession is currently the subject of a lawsuit.

The income and expenditure budget for the auditee was for €347.93m in 2010 and €153.07m in 2011.

Section 5 of the report presents the conclusions arising from the work carried out, of which the following may be highlighted:

- Osmosis plant in Sant Joan Despí: loss from transfer and removal from assets held

According to the agreement and the addendum signed, respectively, in November 2006 and June 2010, between the ACA, the Metropolitan Entity for Water Services and Waste Treatment (EMSHTR), ATLL and the water company AGBAR (Aigües de Barcelona), when the auditee took possession of this new plant, it transferred it to the Metropolitan Entity, which in turn transferred it on to AGBAR, which must pay the transferral price of €22.99m to ATLL over 20 years. This transfer led to a reduction in fixed assets held of €59.57m and a net loss of €27.75m.

- Changes to supply prices and the business and financial plan

Near the end of 2012, as part of the preparatory measures for the imminent awarding of the operating concession, approval was given as from November for a 70% price increase from what the business and financial plan for the start of 2012 had envisaged. A new pricing structure for water supplies was also approved, which allowed an increase to 82% of fixed price components, leaving only 18% in variable items, whereas in 2010 and 2011 these had been 56% and 44% respectively.

- Long term borrowing limits

ATLL did not go above its borrowing limit for the financial year 2011, but in 2010, with a balance of €645.37m in debts outstanding as at 31 December, it was €2.44m over its statutory limit of €642.93m for that financial year.

- Delayed payments to suppliers

In 2011 there was an increase in liabilities corresponding to delayed payments to suppliers, in particular to AGBAR, with a balance due of €11.12m, and to a group of twenty-six suppliers, totalling €77.34m.

- Failure to comply with limits on wage increases in 2010

In spite of budget restrictions for personnel expenses laid down in the budget acts for 2010 and 2011, in 2010 ATLL applied a 1.2% increase to all main wage items, based on the company's collective bargaining agreement for years 2008 to 2011. And for the wage item *Plus conveni* (Supplement as per agreement), which represented roughly 8% of the whole workforce payroll, ATLL applied increases of 8% and 10%, depending on the professional category of employees. With these increases the limits for 2010 were breached, without written authorisation for this from the relevant government departments. However, in 2011 limits were complied with.

- Procurement

In the contract-specific documents of administrative conditions, drawn up in the procurement preparatory stage, the breakdowns of subjective criteria to be assessed were not sufficiently detailed, because the way subcriteria were to be assessed was left very open to value judgements. And for the objectively assessed element (the price), a formula was established which did not allow for a sufficient spread of the points allocated.

In the assessment reports analysing the bids there was a lack of explanations to justify the points awarded.

And for the negotiated procedures, in none of the files in the sample selected was there evidence that negotiations had dealt with the substantive aspects of the contract to be awarded.

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