

SUMMARY

Summary of Report 34/2016, relating to Mollerussa Town Council, effective cost of services, year 2014

Barcelona, 29 March 2017

The Public Audit Office for Catalonia has issued Report 34/2016, relating to Mollerussa Town Council's effective cost of services in financial year 2014, in accordance with its Annual Programme of Activities.

The report, which was presented by Board Member Mr Joan-Ignasi Puigdollers, was approved by the Audit Office Board at its meeting on 22 December 2016.

The purpose of the audit was a review of how the effective cost of local public services in year 2014 was calculated by Mollerussa Town Council, under the requirement laid down in article 116 *ter* of the Fundamentals of Local Government Regulatory Act (Act 7/1985, of 2 April), which was inserted by the Local Government Rationalisation and Sustainability Act (Act 27/2013, of 27 December).

The audit carried out highlighted certain limitations and deficiencies in the statutory provisions on how to calculate the effective cost of services, which can be summarised as follows:

- The calculations to determine the effective cost of services seek to standardise this information so it can be compared with that of other organisations, to the exclusion of other aims which could be pursued with these calculations.
- Not all services provided by town and city councils are included when determining effective costs. The services covered by the effective cost calculations are only the mandatory services and those relating to statutorily assigned powers; other services also delivered, such as delegated or voluntary ones, are not taken into consideration.
- The calculations for the effective cost of services are derived from the budgetary accounts, plus taking into consideration depreciation costs, but these budgetary accounts do not take into account when expenditures accrue, whereas the financial accounts are accrual based.
- In cases of indirect service delivery where the contracted supplier is paid directly by users, the effective cost is determined by the revenues derived from the fees paid by these users. This way of calculating effective costs introduces elements which are not homogeneous, such as the income obtained by the concession holder from running the public service concession.

- The regulations do not offer a more specific treatment of certain indirect costs relating to general running arrangements and how they are apportioned to the services involved.
- Starting in financial year 2017, municipal councils with a population of more than 50,000 inhabitants and supramunicipal authorities will have to calculate the actual costs of local public service delivery using the calculation methods laid down by the governmental Resolution of 28 July 2011. This will produce a duplication of cost calculations which is far from satisfactory, given that the concept of effective cost is different from that of the actual cost of activities as established by the aforementioned Resolution.

The most significant findings from the audit carried out are to be found in section 3.1 of the report and can be summarised as follows:

- There were scope limitations because not all of the information necessary to correctly quantify the cost of the Town Council's services was available:
 - There was insufficient information to determine the indirect cost deriving from the part of general overheads which corresponded to the Council's services.
 - The absence of an inventory limited checks on the fixed assets used to provide the Town Council's services and how they were linked to these services.
 - In this first year of applying the regulations for calculating effective costs, the Council did not provide the physical reference units.
- The Town Council did not report on the cost of the service provided by Mollerussa's Municipal Board for Trade Fairs (*Patronat Municipal de Fires*).
- In the services delivered indirectly through a concession, where the concession holder bears the financial risks involved in running the service, no information was given on the cost of payments for services, that is, the revenues derived from the fees paid by end users.
- The differences in the service cost calculations were quantified, bearing in mind the findings made in the report. The overall figure for the adjustments came to €1,585,121; this amount corresponds to an increase of €945,278 from adjustments to direct costs, a reduction of €314,679 from adjustments to indirect costs and an increase of €954,522 in the cost of the payments made for indirect service delivery. It must be said that the report did not take into account the adjustments that might have been deemed necessary, if the limitations referred to had not existed.

In section 3.2 of the report the Audit Office makes a series of recommendations on the need to review the cost calculations for services.

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