

SUMMARY

Summary of Report 22/2015, relating to the General Account of the Government of Catalonia, year 2013

Barcelona, 25 November 2015

The Public Audit Office for Catalonia has issued Report 22/2015, on the General Account of the Government of Catalonia (the *Generalitat*) for financial year 2013, 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 6 October 2015, with two concurring votes involving matters of interpretation, by Board members Mr Jordi Pons and Ms Emma Balseiro.

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

The Catalan Public Finance Act establishes that the different parts which shall constitute the General Account are as follows:

- the Government's General Administration Account,
- the Account for the Autonomous Agencies of an Administrative Nature and
- the Account for the Catalan Health Service (CatSalut), the Catalan Health Institute (ICS) and the Catalan Institute of Social Services and Assistance (ICASS).

The Act also provides that the Audit Office shall join to these accounts:

- the accounts of autonomous agencies of a commercial, industrial, financial or similar nature;
- the accounts of public enterprises;
- the accounts of other public sector entities, such as consortia or foundations, whose budgets were approved by Parliament, and
- the accounts of the four provincial councils (*diputacions*) (the Act has kept this provision, even though these accounts are also presented with local government general accounts).

The 2013 budget had not been passed by 1 January 2013. Thus, the 2013 financial year began with an extension of the previous year's budget. The criteria for applying this budget extension were established by Decree 170/2012, of 27 December, in order to guarantee

that while it was in force the 2013 non-financial expenditure limit authorised by the Government's Agreement of 31 July 2012 would not be breached.

The Spanish central Government revised the deficit objective during the 2013 financial year; this caused the percentages of extended budget allocations established in the previous year to be modified. The budget extension was in force for the whole financial year of 2013.

From the results of the audit work carried out it can be stated that the General Account of the Government of Catalonia for financial year 2013, drawn up by the Comptroller General's Office (*Intervenció General*) of the Government of Catalonia, was presented in accordance with applicable reporting and budgetary principles and standards, and that the economic and financial activity it reflects was carried out according to the principle of lawfulness. However, the audit work was affected by the aspects shown in the findings given in the report.

The Conclusions section describes thirty findings detailing the most significant deficiencies or areas for improvement, most of which are recurring findings from previous years.

Of all the findings and recommendations, the following can be highlighted:

- Catalan legislation still fails to regulate for the need to present a single consolidated account bringing together all the financial activity of Catalonia's public sector.
- Funding requirements for the financial year 2013 were €3,860m, according to calculations by the Spanish central government's Comptroller General's Office (*Intervención General de la Administración del Estado*). This represents a deficit equivalent to 2% of Catalonia's GDP, when the planned deficit objective was 1.58%.
- According to the information provided by the Catalan Comptroller General's Office, investment undertaken but not included in the 2013 budget was estimated at €137.43m, which represents a reduction of 73.5% in relation to the previous year.
- Given the financial nature of the operations involving *censos emfitèutics* (seigniorial land-owner rights), the seigniorial levies paid each year and the early redemption costs should be accounted for in chapters 9 and 3 of the expenditure budget for the parts considered, respectively, capital expenditure and financing costs.
- Incorrect accounting criteria were detected in various budgetary line items. These are detailed in the report.
- The budget outturns for General Administration and for the healthcare organisations CatSalut, ICS and ICASS, fail to include part of the expenditure incurred during the 2013 financial year, due to lack of sufficient budgetary allocations. The expenditure incurred and unaccounted for during 2013 came to €2,309m. Of this amount, CatSalut's share totalled €1,579m. Expenditure commitments from 2012 but accounted for in 2013 came to €1,793m.

- The General Administration debt figure is given in the accounts at issuing values, whereas the consolidated General Debt Account shows the repayment values, in accordance with accounting regulations.
- The budgetary Year-End Net Working Capital Statement [*Estat del romanent de tresoreria*] does not distinguish between earmarked and non-earmarked funds. The large negative figure for this financial statement, €4,234m as at 31 December 2013, may give rise to liquidity problems.
- The 31 December 2013 figure for risk exposure arising from bank guarantees issued is €4,410m, still a large amount, although down by 11.8% from 2012.
- The Catalan Government is still using the General Public Accounting Plan for the Government of Catalonia approved in 1996. The adaptation of this specific Accounting Plan to the new General Public Accounting Plan passed in 2010 is still pending.
- The governmental public sector needs to improve its inventories by adapting and updating them so that they coincide with the figures given in the accounts.
- The General Administration figure for permanent financial investments includes a number of amounts which the Audit Office considers should have been accounted for when the transactions occurred as part of the yearly result; they should not, therefore, have been included in this Balance Sheet item.

As a general recommendation, the report maintains the warning issued in previous years, to the effect that the Public Audit Office notes the delicate financial position of the Catalan Government at the close of financial year 2013, in view of the reported and audited parameters existing in regard to funding needs, year-end net working capital, negative equity, high financial debt levels and expenditure commitments for future years.

The main consolidated General Account figures for 2013, relating to performance during the year and the final position are as follows:

- The consolidated budgetary result for 2013 shows non-financial recognised liabilities (expenditure) totalling €26,494m and non-financial realised revenues (income) of €23,291m, with a non-financial shortfall of €3,203m, which is a reduction on the €3,596m for 2012 and the €6,760m for 2011.
- Consolidated financial debt currently outstanding came to €48,019m. This represents an increase of 13.5% on the previous financial year.
- The consolidated budgetary year-end net working capital (*romanent de tresoreria*) for 2013 stands at minus €4,234m.
- The consolidated statement of expenditure commitments for future financial years comes to €97,466m.

- From the way consolidated data have developed over the past four financial years it can be seen that, even though the situation is still a negative one, the figures have gradually improved as regards both funding requirements and net working capital fluctuations; however, the consolidated general debt figure is still increasing, mainly owing to debt financing costs.
- In 2013 the Government of Catalonia fulfilled the public debt objective and the expenditure rule, but was unable to meet the budget stability objective.

The most relevant data for the Government Administration Account are as follows:

- The budget outturn shows realised revenues of €38,187m and recognised expenditures of €37,336m, with a surplus of €851m arising from budgetary execution and a non-financial deficit of €3,235m.
- The sum of €38,187m for realised income shows an increase of €2,811m on the previous financial year (7.9%).
- Tax receipts represent approximately 44.1% of total realised revenues.
- The third additional provision of Catalonia's Statute of Autonomy stipulates that the infrastructure investment by the Spanish State must be equivalent to Catalonia's relative contribution to Spain's GDP for a period of seven years. These investments can also be used to reduce motorway tolls or build alternative dual carriageways. In years 2009 and 2010 Spain's central Government made contributions to the Catalan Government to comply with this provision. But in years 2011, 2012 and 2013 the Spanish State neither recognised nor transferred any amount to comply with the stipulations of this additional provision. The amount initially budgeted by the Catalan Government for this item and these financial years was €671m for 2011 and €219m for 2012 and 2013.
- Total recognised expenditures came to €37,336m, with an increase of €3,413m in relation to the previous financial year (10.1%). Budgetary execution came to 99% of final budgetary allocations.
- The Government's workforce as at 31 December 2013 totalled 124,094 persons, a reduction on the 124,316 of the previous year. The accounts show salary payments of €4,471m, whereas in 2012 this figure was €4,611m.
- During the 2013 financial year, the Catalan Government continued to use the different extraordinary funding mechanisms set up by the Spanish central Government. The details of these operations are as follows:
 - Payments to suppliers (phase II): €737.66m
 - Payments to suppliers (phase III): €1,489.23m
 - Regional government liquidity fund (tranches I and II): €10,835.26m (taken up)

- As regards government procurement carried out by the Government of Catalonia and its public sector organisations in 2013, 22,573 contracts were signed, totalling € 1,239 m.

For the autonomous agencies of an administrative nature, the report presents the accounts submitted by the twenty-three entities shown in the budget. These were all presented as stipulated by statutory provisions. It should be highlighted that three of these agencies (the Catalan Sports Council, the Catalan Traffic Service and the Catalan Employment Service) make up 78.82% of the agencies' total aggregate budget.

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