

SUMMARY

Summary of Report 32/2018, relating to Barcelona City Council, budget modifications, year 2016

Barcelona, 26 February 2019

The Public Audit Office for Catalonia has issued Report 32/2018, relating to Barcelona City Council's budget modifications in financial year 2016, 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 20 December 2018.

The aim of the assignment was to audit Barcelona City Council's financial activity during the 2016 financial year, but limited to a review of those aspects which concerned compliance with current legislation relating to the figures reported in the Budget Outturn Statement for year 2016 for modifications to budget appropriations.

This assignment was of a limited nature and did not correspond to a full audit; therefore the conclusions cannot be applied out of this context or extrapolated to refer to the rest of the activities carried out by the City Council during the period studied.

The most significant findings deriving from the audit carried out, as presented in section 3.1 of the report, can be summarised as follows:

Aspects relating to the extension of the previous year's budget

- When setting up the extension of the 2015 budget to cover the 2016 financial year, the Council did not include, in the reductions to be applied, the estimates for revenues or expenditure appropriations which could not be subject to extension: estimated revenues in budget section 9, Financial Liabilities, worth €156.16m, under the heading of new funding to be arranged in 2016; and expenditure budget allocations totalling €22.57m (€13.97m in budget section 3, Financial Expenses, and €8.60m in section 8, Financial Assets).

These omissions meant that the initial budget extension for year 2016 was approved, incorrectly, with a budget surplus of €70.03m. If the aforementioned reductions had been taken into consideration, this budget would have been set with a deficit of €63.56m, and would therefore have been contrary to statutory requirements, because local authorities are only allowed to approve a starting budget with no deficit.

- The new debt envisaged in the 2015 budget extended for 2016, set at €156.16m, was subsequently converted into refinancing arrangements for loan repayments, due to be paid in 2016, on pre-existing loans.

If the Council had included this refinancing in the file for extending the budget for 2016, instead of budgeting new funding for new capital expenditure, the result envisaged in the initial budget, as calculated by the Audit Office, would not have been a deficit of €63.56m but a budget surplus of €92.60m.

Furthermore, the procedural steps needed to approve a refinancing file are more limited than those required for approving a file for extending the budget into the next year, in terms of information, dealing with objections and publicity.

Aspects relating to budget modifications

- The budget modifications categorised as extraordinary appropriations and supplementary appropriations, totalling €275.47m, were approved with the following anomalies: insufficient justification was provided to the effect that it was impossible to postpone until subsequent years the expenditures to be carried out with these modifications; the modifications failed to define all the budget item codes which would be affected; and the Council also failed to justify the full availability of the €153.16m budget surplus (*romanant de tresoreria*) for general expenditures carried over from year 2015 as a partial funding source for modifications.

Of the budget surplus for the Council's general expenditures carried over from 2015, the audit estimated that only €78.16m could actually have been available to fund modifications to budget appropriations, thus implying that €75m of these modifications were improperly funded.

- There were modifications to budget appropriations funded by revenues (contributions from the Fund for Promoting Tourism) for which part of the funding, €4.63m, came from budget surpluses from earmarked funds, even though this source of funding is only applicable to budget modifications funded by specific budget surpluses carried over from previous years.
- The modifications using transfers of budget appropriations, totalling €785.13m, were approved with the following anomalies:
 - A total of €325.68m, involving both additions and subtractions, corresponding to what the Council calls "mini-transfers for capital expenditures" were improperly included.
 - The statutory limitations relating to transferring funds between budget appropriations, when earmarked appropriations are involved, were not adhered to in all cases.
 - One transfer of funds was a reduction of €47.38m to a budget appropriation relating to a grant for operating expenses to be paid to Barcelona Metropolitan Area, which

was linked to an incoming transfer payment for operating expenses from the water company Aigües de Barcelona. But the City Council failed to reduce the existing estimate of incoming earmarked funds.

- The Council arranged two budget modifications in the category of transfers of funds between appropriations, worth €2.22m and €46.20m, when, given the characteristics of the items being adjusted, they should have been processed as extraordinary modifications to appropriations.
- Regarding the transfers of funds between appropriation categories, the Council neglected to publicise budget modifications relating to personnel expenditures, totalling €14.77m.

The Audit Office also makes several recommendations relating to some of the issues brought to light during the audit carried out.

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