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SUMMARY

Summary of Report 4/2021, relating to the company Circuits de Catalunya, SL, year 2018

Barcelona, 12 May 2021

The Public Audit Office for Catalonia has issued Report 4/2021, relating to the Catalan race-track company Circuits de Catalunya, SL (CCSL), financial year 2018, in accordance with its Annual Programme of Activities.

The report, which was presented by Board Member Mr Miquel Salazar, was approved by the Audit Office Board at its meeting on 20 April 2021.

The regularity audit included a review of CCSL's annual accounts for year 2018, to check that they had been drawn up in accordance with the relevant financial reporting regulatory framework and, in particular, the accounting principles and criteria contained in that framework. It also included verifying that in the period covered by the audit CCSL had carried out its activities in accordance with applicable legislation.

CCSL is a joint-stock company with a majority shareholding owned by the Government of Catalonia (*Generalitat*); in the year covered by the audit it was attached to the Department for Business and Employment. As at 31 December 2018 the shareholders were the Government of Catalonia, the public enterprise Empresa de Promoció i Localització Industrial de Catalunya, SA (AVANÇSA), the Royal Automobile Club of Catalonia (RACC) and Montmeló Town Council.

CCSL's Balance Sheet at the close of 2018 showed total assets and total equity plus liabilities of €58.86m. As at 31 December 2018 company net worth was just 59.5% of share capital, the shortfall in net assets being the result of cumulative losses. According to the Profit and Loss Account, the result for year 2018 was a loss of €10,215,164.

Bearing in mind the aim, scope and methodology used for this report, the Audit Office's opinion is that, except for the possible effects of the limitations described in findings 1 to 6, the annual accounts represent, in all significant aspects, a true and fair view of CCSL's assets and financial position as at 31 December 2018, and also of its results, cash flow and budget outturn corresponding to the financial year ending on that date. The report gives special emphasis in findings 7 and 8 to the uncertainties it describes relating to the status of the company as a going concern.

Section 3.1 presents thirty-four findings from the audit work carried out. The most significant ones can be summarised as follows:

- As regards the revenues from sporting events, in four of the six events analysed there were limitations for the audit, because it obtained the overall prices charged, but no full breakdown of the services or resources contracted by clients, or details of unit prices or of the services or resources they actually ended up using.

- As regards the revenues from concession agreements, for the three cases analysed (the driving school, the off-road circuit and the heliport) the amount to be paid to CCSL was established as a percentage of the revenues obtained by the concession holder. In none of the three cases did CCSL validate the information provided by the concession holders, which was the basis for its revenues. In the case of the heliport, CCSL neither received nor claimed any payment for the arrangement, and no revenue item for it showed in the accounts. CCSL should make the relevant claim for payment.

- The pricing policy was laid out in internal documents which had not been signed or duly authorised, or approved by the Board of Directors. These documents did not specify the procedures and criteria used for negotiating prices and discounts, the limits on invitations or the criteria for distributing them. In addition, there was no analysis of the financial or commercial returns.

- In the contracts governing the Formula 1 Grand Prix and MotoGP Grand Prix events the audit detected non-compliance with certain clauses without any type of contract modification or formal agreement between the parties. For instance, the commercial rights contract with the company Formula One Marketing Limited (FOML) established that this latter kept exclusive hospitality rights except in specific areas (suites in the main tribune and areas in the control tower) described in the appendix to the contract. CCSL was subsequently allowed to have rights in other areas (pit apartments, Montjuïc Club and Village GP) under unwritten agreements whereby FOML would keep 30% of the revenues obtained by CCSL for these other spaces. The failure to formalise these arrangements did not allow exclusive spaces to be clearly delimited or evidence to be obtained for the revenue figure which that percentage would be applied to.

- Regarding revenues and expenditures with the RACC, the audit found anomalies relating to the January 1997 cooperation agreement, to how usage rights for the upper part of the pit-stop building were granted to the RACC and to the sports management expenses which the RACC invoiced CCSL for.

- CCSL failed to invoice and put on its books the revenues and expenditures deriving from the cooperation agreement with Montmeló Town Council, which had been drafted but never actually signed.

- From year 2014 CCSL had run up losses on a continuous basis which, by 31 December 2018, had reached a cumulative total of €28.66m. These cumulative losses due to insufficient own revenues, which had diminished over the previous few years, and to expenditures which had not been adjusted down, represent an uncertainty as to the company's status as a going concern, which will depend on the financial support from its partners and government stakeholders and its ability to obtain other sources of income.

- In 2018, CCSL's financing arrangements were based on continual share capital increases and reductions, in order to mop up, after the event, the losses incurred. These losses, from insufficient own revenues and from failing to reduce expenditures (basically the contributions for organising the Grand Prix events), ended up being covered afterwards by the Catalan Government, through its public enterprise AVANÇSA, with share capital adjustments to cover, at least partially and temporarily, the imbalances. This system of injecting capital after generating losses was inadequate for CCSL's operational and financing needs. It must also be said that the RACC and Montmeló Town Council continually failed to comply with the arrangements for share capital increases agreed on in July 2013, which meant larger injections of capital from the Catalan Government, through AVANÇSA. In addition, the imbalances in the funding arrangements produced liquidity problems which led to non-payment of certain amounts due in year 2018.

- CCSL did not have a proper schedule of staff positions or similar document for planning its human resources needs.

- Personnel expenditures generated through temping agencies came to €1.21m, with a daily average of 29.2 employees on hire. The analysis carried out showed that this atypical hiring arrangement was used to cover structural personnel needs which had also occurred in previous years. The audit also detected the continuous hiring of self-employed persons which, in some cases, could represent a possible risk of infringing employment rules for CCSL. It should also be noted that applying the 2017-2018 Catalan collective bargaining agreement for office and clerical workers did not facilitate adequate personnel management for the services to be delivered.

- As regards the procurement of projects and services, various deficiencies and breaches of regulations were found, deriving from the fact that CCSL considered that public procurement rules were not fully applicable to it. As a non-governmental contracting authority, in year 2018 CCSL should have followed the procedures laid down in the Public Sector Contracts Act in force, and not those established in its Internal Instructions on Procurement.

Lastly, the report makes nine recommendations which, in the Audit Office's opinion, would help to improve the issues mentioned in the Findings section.