



# **Report on the 2014-2015 Economic & Financial Plans of the Autonomous Regions**

**The Economic & Financial Plans (EFPs) of the Autonomous Regions of Castilla-La Mancha, Catalonia, Murcia, Valencia and Cantabria are to be submitted to the Fiscal and Financial Policy Council at its meeting on 23rd December 2014.** The Ministry of Finance & Public Administrations (MINHAP) reported to the Government last April on the non-compliance with the fiscal stability target by the Autonomous Regions of Aragón, Castilla-La Mancha, Catalonia, Murcia, Navarra and Valencia, together with the non-compliance of the public debt target by Aragón, Castilla-La Mancha and Navarra.

As a consequence, the Autonomous Regions listed above —with the exception of Navarra<sup>1</sup>— presented to the Fiscal and Financial Policy Council (CPFF, *Consejo de Política Fiscal y Financiera*) on 31st July their Economic & Financial Plans (EFPs) for 2014 and 2015. In accordance with the legislation currently in force, those plans were the subject of a prior report issued by AIReF. At that July CPFF meeting, it was decided that the plans submitted — except for Aragón which was approved— would have to be updated in line with the interest rate reduction measures announced by MINHAP at the CPFF meeting itself. Approval of those plans was therefore deferred until the next CPFF meeting.

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<sup>1</sup>In the specific case of the Autonomous Region of Navarra, approval of the Economic & Financial Plan is the responsibility of the Coordination Committee regulated under article 67 of the Economic Agreement between the State and the Autonomous Region of Navarra.

The mission of AIReF, the Independent Authority for Fiscal Responsibility, is to ensure strict compliance with the principles of budgetary stability and financial sustainability contained in article 135 of the Spanish Constitution.

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Moreover, the final report sent to the government last October determined the non-compliance with the 2013 fiscal stability target for the Autonomous Regions indicated above and also for the Autonomous Region of Cantabria. Consequently, this Region must also submit an Economic & Financial Plan (EFP) to the CPFF and a report [on that EFP must be issued](#) previously by AIReF, [following](#) the same procedure [applied](#) in July [to](#) the other Autonomous Regions indicated above.

### **Autonomous Regions of Castilla-La Mancha, Catalonia, Murcia and Valencia**

**A report on the EFPs of the Autonomous Regions of Castilla-La Mancha, Catalonia, Murcia and Valencia was published on 28th July although AIReF was not able to include an opinion in it on the forecast scenario for 2015.** The <sup>2</sup>July *Report on the Economic & Financial Plans of the Autonomous Communities* could give an assessment of the adequacy of the scenario and measures in 2014 for compliance with the fiscal stability target for that year only given that, on the date of submission of the EFPs, the Autonomous Regions did not have any information on the amounts to be paid out under the State's funding system in 2015.

In that report AIReF indicated that a degree of exhaustion of the measures to be adopted with short-term economic impact could be observed. At the same time, it made a recommendation to the working group on public expenditure rationalisation and efficiency to conduct an in-depth study of the current situation and the possibilities of reform in areas of special relevance because of their impact on the fiscal stability and financial sustainability of the Autonomous Regions. In this regard, AIReF made a more specific recommendation to these Autonomous Regions to review the

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<sup>2</sup> 2014 Report on the Economic and Financial Plans of the Autonomous Communities

scenario forecast for 2014 and to provide details of, reinforce and/or expand the measures proposed as required by the particular circumstances of each Region.

**These same Autonomous Regions have each presented a new draft EFP updating the implementation data and 2014 year-end scenario and incorporating a new forecast for 2015.** The draft EFPs sent to AIReF incorporate up-to-date information on budget implementation and the forecast for year-end 2014 as well as a scenario for 2015 in line with the draft budgets presented.

**AIReF cannot take a view on the forecasts for 2015 incorporated into the draft EFPs of these Autonomous Regions beyond what is already stated in the *Supplementary report on the main budgetary lines for 2015 of the Autonomous Regions*.** Once the budgetary scenarios for 2015, as contained in the draft budgets of the Autonomous Regions, were known to AIReF, on 16th December 2014 it stated its view on the adequacy of the scenario and measures for 2015 for the stability target for that year in the *Supplementary report on the main budgetary lines for 2015 of the Autonomous Region*<sup>3</sup><sup>4</sup>. AIReF states in the report that there are risks that these Autonomous Regions may not achieve the stability target for 2015 set at -0.7% of GDP. The conclusions for each Region, from the standpoint of compliance with the stability target, are considered to be the statement made by AIReF on the 2015 forecasts contained in the draft EFPs sent by the Autonomous Regions insofar as those plans incorporate a fiscal scenario based on the published draft budgets and no measures have been specified that correct this scenario or the conclusions reached up to the date of publication of this report.

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<sup>3</sup>The 2015 Stability target for the autonomus region will be very difficult to achieve

Any measures that might be adopted subsequent to the date of publication of this report will have to be incorporated into the EFP and will be assessed by AIReF within the framework of the monitoring reports that must be published by the MINHAP on a quarterly basis. The government has announced measures about which information will be given to the CPFF meeting scheduled for 23rd December. These measures must be incorporated into the EFPs and be monitored on a quarterly basis in the process established by the Organic Law on Budget Stability and Financial Sustainability (LOEPySF, *Ley Orgánica de Estabilidad Presupuestaria y Sostenibilidad Financiera*). As a result, they will be subject to assessment by AIReF through the reports of this nature issued and published by the MINHAP.

### **Autonomous Region of Cantabria**

The Autonomous Region of Cantabria must submit an Economic & Financial Plan (EFP) because of non-compliance with the fiscal stability target set for 2013. That EFP must be the subject of a report from AIReF prior to its submission to the CPFF. With the [advance](#) data [of](#) 2013 results published by the Ministry of Finance & Public Administrations (MINHAP) in April, the Autonomous Region of Cantabria presented a deficit adjusted to its target. However, the final report sent to the government last October determined the Region's non-compliance with the fiscal stability target for 2013.

The following conclusions are taken from the analysis carried out. The detailed analysis is attached to this report as an annex.

- 1. Compliance with the stability target set for 2014 is deemed likely.** The tensions observed in the revenue scenario (mainly relating to disposals of property assets) could be corrected by stringent application of on-going cost-[cutting](#) measures.

2. **Compliance with the fiscal stability target for 2015 is deemed likely.** Nevertheless, uncertainty is seen with regard to certain revenue forecasts, mainly the Tax on Asset Transactions and Documented [Legal](#) Acts and disposals of property assets.

**For 2014 AIReF recommends the provision of additional information on the budgetary appropriations affected by the decisions on non-availability of funds and withholding of appropriations and about their impact on account 413/409.** The appropriations covered by the decisions on non-availability of funds and withholding of appropriations should be specified as well as their effect on “Creditors for transactions pending booking [into](#) budget” (account 409/413) in order to guarantee correction in 2014 of any possible deviations in revenues through additional expenditure curtailment.

# Report on the Economic & Financial Plan of the Autonomous Region of Cantabria

Over the last three years, the Autonomous Region of Cantabria has achieved fiscal consolidation equal to 3% of regional GDP<sup>5</sup>, and has brought its net borrowing in 2013 down to 1.19% of GDP.

Although compliance with the fiscal stability targets for 2014 and 2015 is deemed likely, tensions are observed in the revenues scenario, both in the year-end 2014 estimate and in the forecast for 2015. After analysing the draft Economic & Financial Plan (EFP), the draft General Budget for the Autonomous Region of Cantabria for 2015 and the supplementary information furnished by the Region, AIReF deems it likely that the Region will comply with the fiscal stability targets for 2014 and 2015 set at -1% and -0.7% of regional GDP respectively. Nevertheless, as stated in the *Supplementary report on the main budgetary lines for 2015*, published on 16th December, certain elements of tension are seen in the 2014 year-end scenario, focused on revenues from disposals of property assets. The non-materialisation of those revenues would generate tension in a year-end outcome that is already tight and may mean additional retrenchment not envisaged in the draft budgets would be required in 2015. Likewise, in the scenario forecast for 2015, uncertainties have been detected with regard to expected revenues of the same kind and to certain taxes. If these uncertainties materialise, they will have to be corrected during the year through measures to offset any deviations detected.

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<sup>5</sup> Fiscal effort excluding the final settlement from the autonomous region funding system and one-off transactions in 2013.

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The measures contained in the EFP may be sufficient if and when the elements of tension observed can be corrected through the favourable performance of other budget items or headings:

- In 2014 the measures contained in the EFP may be sufficient to enable compliance with the stability target set for this year. However, more details should be given on the non-availability of funds for budget appropriations agreed as of July as well as the additional budgetary non-implementation expected at year-end. These circumstances would allow the elements of tension viewed in the revenues scenario to be corrected. The measures contained in the plan may be sufficient to guarantee the correction of the imbalance recorded in 2013 and achieve compliance with the 2014 target, provided that uncertainties perceived in the revenues scenario —specifically in disposals of property assets— can be offset by better performance of expenditure stemming from the decision on non-availability of budget appropriations for the second half of the year and the additional budgetary non-implementation expected at year-end. The decision on non-availability was issued by virtue of Law 9/2013, of 27th December, on the General Budget of the Autonomous Region of Cantabria for 2014. It was based on the report published by the Regional Department of Economy, Finance and Employment on 9th July considering non-availability of funds a necessary measure in view of the budget implementation to 30<sup>th</sup> June. To guarantee achievement of the fiscal stability target for 2014 AIR<sup>e</sup>F believes that supplementary information should be provided on the budget appropriations that would be affected at year-end by the non-availability funds for appropriations or additional withholding of budget appropriations as decided by the Region. The effect of the measure on account 409/413 should be specified in each case.

• The measures forecast for 2015 may be sufficient to guarantee compliance with the target. However, if the uncertainties observed in the revenues forecasts materialise, as soon as potential deviations are detected additional measures must be taken to guarantee their correction. As far as the forecasts for 2015 are concerned, the scenario envisaged by the Region in the EFP, as contained in the draft budget published, seems consistent with compliance with the fiscal stability target set for that year. Nevertheless, the tension observed in the estimate for year-end 2014 may entail further retrenchment not envisaged in the draft for 2015. This circumstance is accentuated by the fact that a number of uncertainties are perceived in 2015 with regard to the forecasts of revenues from the Tax on Asset Transactions and Documented Legal Acts (ITPAJD, *Impuesto sobre Transmisiones Patrimoniales y Actos Jurídicos Documentados*) and from disposals of property assets. To guarantee compliance with the target, AIReF recommends the Region applies —as was the case in the previous year— automatic correction mechanisms as soon as any deviations in budgetary implementation are detected, in application of article 18.1 of Organic Law 2/2012, of 27th April, on Budget Stability and Financial Sustainability (LOEPySF, *Ley Orgánica de Estabilidad Presupuestaria y Sostenibilidad Financiera*).



## Analysis of the scenario for 2014

The Region has put forward **MEASURES** with a positive impact of €67m for 2014. Of this figure, €2m are earmarked as measures to increase revenue and €65 as reduction in expenditure

The **revenue measures** include revenues valued at €2m that are expected from changes in the rates of several taxes arising from the new legislation on fiscal and administrative measures for 2014. The expected €22m effect of the measures for property asset disposals forecast in the year-end budget scenario is not quantified as a measure.

One of the main **expenditure measures** is the decision on the non-availability of budget appropriations valued at €59m. Other additional measures include readjustment of leases (€1m); the reduction and prioritisation of intangible fixed asset investments (€2m) and the public sector expenditure reduction (€3m).

With regard to the **BUDGET SCENARIO** forecast at year-end 2014 the Region estimates an increase in non-financial **revenues** after excluding the revenues from the funding system (interim payments and final settlement) valued at €55m. The value assigned to the measures envisaged is €2m, to which the revenues from asset disposals have to be added, taking the total to €24m. Tension is perceived in the revenues scenario with possible deviations observed that are driven by:

- Disposals of property assets, given that to date no amount of the revenues forecast has been generated, nor has any documentary evidence been provided of them.
- Rates, public prices and other revenues, as the forecast for these items at year-end is not underpinned by any measures and does not seem consistent with the performance of revenues to date.

As regards the **expenditure** scenario, the Region forecasts a reduction in non-financial expenditure, after stripping out the effect of the obligations recorded in non-budgetary accounts totalling €12m. It has valued the measures adopted under this heading at €65m. The

year-end scenario does not seem to reflect the full impact of the additional budgetary non-implementation expected to year-end whereby the Regional Department of Economy, Finance and Employment is authorised to make the relevant budget withholdings. Once this non-implementation has been fully incorporated, the performance of expenditure might provide a buffer against deviations detected in the revenues scenario that would allow for compliance with the stability target. For that conclusion to be confirmed all the budgetary appropriations affected by either the non-availability or the withholding measure need to be fully identified. It also requires an indication to be given for the appropriations and for each expenditure heading of the initial provision, data on implementation to 30th November in terms of accrued obligations, declared non-availability and year-end forecast, together with justification of the effect of these measures in the record of obligations in account 409/413.

## Analysis of the scenario for 2015

The Region envisages revenue **MEASURES** amounting to a net total of €0.8m.

The **revenue measures** listed include those adopted under the Tax on Asset Transactions, valued at €3m, aimed at fostering consumption and investment. Their effect would be partially offset by lower revenues expected from the change in the tax rates for the Tax on [Asset Transactions and Documented Legal Acts](#) and levies on gambling, arising out of the new legislation on fiscal and administrative measures for 2014. The expected effect of disposals of property assets—for which €30m are expected—is not quantified in line with the fiscal scenario.

**Expenditure measures** for 2015 are not quantified.

It can be observed in the **BUDGETARY SCENARIO** forecast for 2015 that the Region expects to increase its non-financial **revenues** by €51m, after stripping out the revenues from the funding system (interim payments and final settlement). Although no measures have been notified, the fiscal scenario incorporates revenues for property asset disposals totalling €30m. Due to the nature of these revenues, their performance in previous years and the lack of any concrete details of the disposals, uncertainty about their possible materialisation is perceived.

As far as the **expenditure** scenario is concerned, the Region envisages an increase in non-financial expenditure of €69m after stripping out the effect of the forecast for obligations recorded in non-budgetary accounts.


Given the uncertainty already seen in certain revenue items, any deviations in implementation that may be detected as the year goes on must be offset or corrected as soon as possible through the adoption of additional measures, along the same lines as in 2014, when decisions on non-availability of funds were taken in view of the deviations detected in the data to 30th June.

Nevertheless, the measures that may be adopted at the meeting of the CPFF on 23rd December may have an impact on the scenario presented for this year and must be incorporated into the EFP quarterly monitoring process envisaged in the LOEPySF.

## ANNEX

### 1. DOCUMENT CONSISTENCY AND QUALITY OF INFORMATION


<u>VARIABLES</u>	<u>ADEQUATE</u>	<u>INCOMPLETE</u>	<u>INADEQUATE</u>
<b>OBJECTIVITY</b>		X	
<b>CLARITY</b>	X		
<b>CONCRETENESS</b>	X		
<b>INTEGRITY</b>			
▪ <b>Content of article 21 of the LOEPySF</b>			
1. Causes of non-compliance			X
2. Trend forecasts			
3. Description, quantification and calendar of measures		X	
4. Economic and budgetary forecasts			
5. Sensitivity analysis			
▪ <b>Other information</b>	X		

 Rating given in the general section of the report of 28 July 2014 Report on the Economic and Financial Plans of the Autonomous Communities

## 2. ADEQUACY OF FORECASTS WITH RESPECT TO TARGETS

### 2.1 STABILITY TARGETS

<b>VARIABLES</b>	<b>ADEQUATE</b>	<b>INCOMPLETE</b>	<b>INADEQUATE</b>
<b>ECONOMIC VARIABLES</b>			
<b>CONSISTENCY OF BUDGETARY SCENARIO-MEASURES</b>			
▪ <b>Revenues SCENARIO</b>			
1. Revenues from funding system (interim payment and final settlement)	X		
2. All other revenues from the funding system		X	
3. Other taxation revenues		X	
4. All other revenues		X	
▪ <b>Expenditure SCENARIO</b>			
1- Personnel expenditure	X		
2- Financial expenditure	X		
3- All other current expenditure	X		
4- Capital expenditure	X		
▪ <b>Adjustments in national accounts terms</b>			
1. Uncertain revenue collection	X		
2. Interest	X		
3. Account 409/413	X		
4. Non-implementation		X	
5. All other adjustments	X		

 Rating given in the general section of the report of 28 July [2014 Report on the Economic and Financial Plans of the Autonomous Communities](#)

3. SUFFICIENCY OF MEASURES (one table per each defined category)

3.1 REVENUES

3.1.1 TAXATION REVENUES

<u>VARIABLES</u>	<b>ADEQUATE</b>	<b>INCOMPLETE</b>	<b>INADEQUATE</b>
DEGREE OF IMPLEMENTATION OF MEASURES IN PREVIOUS YEARS	X		
CONCRETENESS	X		
LEGAL-ADMINISTRATIVE CONTEXT OF THE MEASURES	X		
INDICATION OF THE PROCEEDURE		X	
DEGREE OF IMPLEMENTATION		X	
ADEQUACY OF THE ECONOMIC IMPACT		X	

3.1.2 NON-TAXATION REVENUES

<u>VARIABLES</u>	<b>ADEQUATE</b>	<b>INCOMPLETE</b>	<b>INADEQUATE</b>
DEGREE OF IMPLEMENTATION OF MEASURES IN PREVIOUS YEARS			
CONCRETENESS		X	
LEGAL-ADMINISTRATIVE CONTEXT OF THE MEASURES		X	
INDICATION OF THE PROCEEDURE			X
DEGREE OF IMPLEMENTATION			X
ADEQUACY OF THE ECONOMIC IMPACT			X

### 3.2 EXPENDITURE

#### 3.2.1 PERSONNEL EXPENDITURE

<u>VARIABLES</u>	<b>ADEQUATE</b>	<b>INCOMPLETE</b>	<b>INADEQUATE</b>
DEGREE OF IMPLEMENTATION OF MEASURES IN PREVIOUS YEARS			
CONCRETENESS	X		
LEGAL-ADMINISTRATIVE CONTEXT OF THE MEASURES	X		
INDICATION OF THE PROCEEDURE	X		
DEGREE OF IMPLEMENTATION	X		
ADEQUACY OF THE ECONOMIC IMPACT	X		

#### 3.2.2 ALL OTHER CURRENT EXPENDITURE

<u>VARIABLES</u>	<b>ADEQUATE</b>	<b>INCOMPLETE</b>	<b>INADEQUATE</b>
DEGREE OF IMPLEMENTATION OF MEASURES IN PREVIOUS YEARS		X	
CONCRETENESS		X	
LEGAL-ADMINISTRATIVE CONTEXT OF THE MEASURES		X	
INDICATION OF THE PROCEEDURE		X	
DEGREE OF IMPLEMENTATION		X	
ADEQUACY OF THE ECONOMIC IMPACT		X	

## 3.2.3 CAPITAL EXPENDITURE

<u>VARIABLES</u>	<u>ADEQUATE</u>	<u>INCOMPLETE</u>	<u>INADEQUATE</u>
DEGREE OF IMPLEMENTATION OF MEASURES IN PREVIOUS YEARS	X		
CONCRETENESS	X		
LEGAL-ADMINISTRATIVE CONTEXT OF THE MEASURES	X		
INDICATION OF THE PROCEDURE	X		
DEGREE OF IMPLEMENTATION	X		
ADEQUACY OF ECONOMIC IMPACT	X		