



Report on the main budgetary lines for 2015 of the Autonomous Region of Andalusia

In the two years 2014-2015, the Autonomous Region of Andalusia must make a fiscal effort equivalent to 0.4% of its expected regional GDP for 2015, after excluding the adjustment triggered by the non-repetition of transactions that took place in 2013. At year-end 2013, the Region's net borrowing was €2,151m, which is 1.5% of its regional GDP. Using the year-end as a starting point, in order to meet its stability target in 2015 it has to reduce its deficit by €1,117m. This is 0.8% of the regional GDP forecast for 2015. According to the Region, €489m of this reduction will be corrected by not repeating the regularisation of pharmaceutical expenditure that took place in 2013. The remaining €628m account for 0.4% of expected 2015 regional GDP.

There are risks that in 2015 the Autonomous Region of Andalusia might not reach its deficit target for the year, which has been set at 0.7% of its regional GDP. On the basis of the information available in the main budgetary lines questionnaire submitted by the Region, facilitated by the General Government Financial Information Centre (Ministry of Finance & Public Administration) and later updated by the Region, and in the draft State budgetary plans published for 2015, there are implementation risks that jeopardise compliance with the stability target for this year. These risks are based on:

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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- **High risk of non-compliance with the target set for 2014, driven by the tightness of the budget observed, especially in the expenditure scenario, together with the uncertainty about the implementation of disposals of property assets and the receipt of EU funds.** If these revenues materialise in 2015, the expected 2015 risk would be mitigated, provided the expected disposals are eligible as lower deficit under Spain's national accounts system.
- **Deviation risks observed in the draft budget for 2015.** The greatest deviation risks detected in the 2015 draft budget are driven by the revenues from the funding system payable with interim instalments and final settlement. In the published draft, these are valued above the amounts reflected in the General State Budget, at a figure equivalent to 0.3% of regional GDP.

The Region's 2014 deficit could stand between 1.3% and 1.4% of regional GDP. In the year-end 2014 fiscal scenario forecast by the Region in the main budgetary lines questionnaire for 2015, taking into account the performance of revenues and expenditure to date, compliance with the year-end figures given is highly stressed. There seems to be no buffer for absorption or correction of deviations that may occur towards the end of the year. In these circumstances, the high uncertainty about the materialisation of the expected capital revenues could lead to a greater deficit than targeted.

In application of article 20 of Royal Decree 215/2014, of 28th March, approving the Organic Charter of the Independent Authority for Fiscal Responsibility, an independent section is included in this report on the deviation risk detected in 2014.

Analysis of the possible deviation from the 2014 budgetary stability target

The Autonomous Region of Andalusia expects to achieve its 2014 stability target with a 2.1% increase in revenues and a 3.7% reduction in expenditure in public-sector accounting terms. On the basis of the information updated by the Region against the main budgetary lines questionnaire submitted to the Ministry of Finance & Public Administration (MINHAP), by year-end 2014 the Region expects to achieve the stability target set for the year at -1% of its regional GDP. This outcome would be obtained by a 2.1% increase in non-financial revenues and a 3.7% reduction in non-financial expenditure, mainly driven by current expenditure on goods and services, current transfers and property assets. The budgetary outcome would be corrected with an expected adjustment in national accounts bringing down the deficit by €267m.

The primary deficit expected by the Region is 0.5% of the regional GDP in public-sector accounting terms. Expected non-financial interest expenditure (chapter 3 of the expenditure budget) for year-end 2014 accounts for 0.7% of the regional GDP.

Revenues from the funding system paid out by the State to the Region in 2014 fell 2.5% against 2013. The largest items recorded as non-financial revenues are the revenues from the funding system payable with interim instalments and final settlement. These were down 2.5% against those received by the Region in 2013. The average reduction for all the Autonomous Regions under the common regime is 3.3%.

The measures foreseen by the Region for 2014 account for €801m. The Region has reported on revenue measures for this year, whose impact is valued at €446m. The largest items relate to the disposal of property assets. Moreover, additional expenditure measures valued at €355m have been adopted over and above those applied in 2013. Other measures have been maintained, including the suppression of the supplements to the extra pay packet in similar terms to the previous year.

The main risks of deviation from the 2014 stability target are driven by the expected year-end figure for capital revenues:

1. A risk of non-compliance can be observed in the **revenue** scenario given by the Region for 2014 in its estimates of the capital items:
 - **Disposals of property assets:** At year-end, proceeds from the divestment of property assets are expected to amount to €300m. However, to September no such proceeds have materialised at all. Nonetheless, according to the information facilitated by the Region to AIReF, the Regional Government has authorised the Regional Department of Finance & Public Administration to forecast a long-term expense for the sale & leaseback of a batch of government properties belonging to the Andalusian Regional Government, as a preliminary step prior to signing the corresponding contracts, whose revenues are expected to be obtained before year-end. The Region has also indicated that on 3rd December, the bond for this transaction was deposited and the allocation award agreement published. The signing of the deed is conditional on the technical due diligence being carried out by the lessor and its outcome. The lessor assures that the properties are in good condition. Although the Region expects these final steps to be completed before year-end, given the tight deadlines, there is a risk that the revenues from the transaction may not be recognised this year. Moreover, the Region considers that the specifications of the transaction will enable it to be considered an operating lease, making it eligible for inclusion in the deficit for the effects of the national accounts. However, no accreditation has been submitted from the IGAE (Government Comptroller's Office), the body tasked with drawing up the national accounts, which endorses the impact of the transaction on the deficit. The figure attributed to these transactions accounts for 0.2% of the regional GDP for 2014.

- **Capital Transfers:** The Region estimates 18% growth of these funds against those obtained the previous year. This increase, which is largely underpinned by the estimated revenues from EU funds —although it moderates the initial 2014 budgetary forecast— does not appear to be backed up by the revenue accrued to date. These are 91% below the figure accrued in the same period of the previous year, and do not reach 2% of the year-end forecast. Although an increase in the funds received from the EU can be expected at year-end, given the short deadline, there is high uncertainty about the materialisation of the expected revenues during this year, because of the risk that the amount allowing for recognition of the revenues for the total figure expected by the Region might not be certified in time. The Region has indicated that it expects the expenditure declarations leading to the recognition of the financing entitlements to be concentrated in the final quarter. It has reported that at 31st October, a significant amount of the expenditure has already been certified.

- 2. Additionally, the buffer seems very meagre in the **expenditure** scenario expected by the Region for 2014, mainly with respect to **current expenditure on goods and services:** The Region expects an 8% saving in public-sector accounting terms. With the constraints imposed by not knowing the movements of account 409/413 by chapters for all the time periods, it is observed that the performance of these expenses in previous years, their implementation to date and the valuation of the measures adopted in this respect, suggest a low probability of compliance with the forecasts. However, the Region has indicated that the year-on-year performance of these expenses in the first nine months of the year has been impacted by the different effect on expenditure budgeted in 2014 and 2015 driven by the extraordinary financing mechanisms. Once this effect is corrected, the Region estimates that the expected year-end saving would be 1.3%. With this additional information, it would appear that the expected scenario could be achieved. However, meeting these estimates demands strict application of the Region's cost curtailment plans.

Analysis of possible deviation in the 2015 forecasts

The Autonomous Region of Andalusia expects to achieve its 2015 stability target with a 5.9% increase in revenues and a 3.4% increase in expenditure, in public-sector accounting terms. For 2015, the budgetary stability target is -0.7% of regional GDP. According to the available information, this outcome would be obtained with a 5.9% positive year-on-year change in non-financial revenues and a 3.4% year-on-year increase in non-financial expenditure. Additionally, in public-sector accounting terms the deficit would be reduced with the positive adjustments in the national accounts, estimated at €213m. According to the Region, this would enable it to bring its net borrowing into line with compliance of the stability target.

The primary deficit expected by the Region is 0.3% of the regional GDP in public-sector accounting terms. Expected non-financial interest expenditure (chapter 3 of the expenditure budget) for year-end 2015 accounts for 0.6% of the regional GDP.

Revenues from the funding system that the State is expected to pay out to the Region increase 1.4% against 2014. The largest items recorded as non-financial revenues are from the funding system payable with interim instalments and final settlement. The 2015 General State Budgetary Plans envisage a 1.4% increase in these against 2014. The average increase for all the Autonomous Communities under the common regime is 2.8%.

The discontinuation in 2015 of measures adopted in earlier years means higher expenditure/lower revenues of approximately €491m. The Region estimates that the effect of the expected measures in 2015 will mean €45m higher revenues than those expected for year-end 2014. The negative €300m effect of not repeating the property asset disposals for 2014 should be factored into this amount. However, the Region is expecting to apply expenditure measures for savings related to the expense on service provision and utilities with an additional €245m impact, although this effect will be offset by the €481m higher expense expected from the elimination of remuneration measures

(basically, the suppression of the supplements to the extra pay packet) which had been maintained until 2014.

The main risks of deviation from the 2015 stability target are driven by the amount of expected revenues from the funding system:

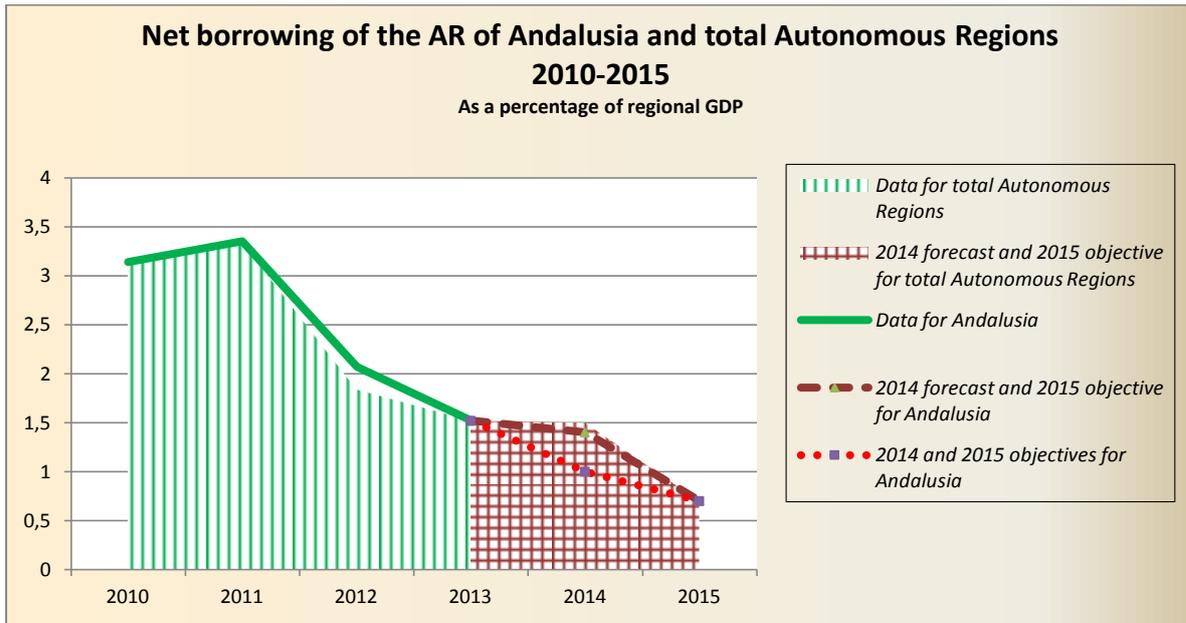
1. In the **revenues** scenario expected by the Region for 2015, a risk of non-compliance with the stability target is identified, concentrated in the item of **revenues from the funding system paid out by the State** payable with interim instalments and final settlement. The Region's valuation is €437m (0.3% of the regional GDP) higher than the figures notified by the State and included in the draft General State Budget 2015 (GSB2015). The Region explains in its Economic & Financial Report accompanying the draft budgetary plans that it has not accounted for the expected 2013 settlement notified by the State and included in the GSB, because it has requested this negative settlement be deferred so that the same treatment can be applied to it as was to the negative settlements of 2008 and 2009. Negotiations are expected to continue with the State along these lines. However, at the moment, according to current legislation, the settlements from the funding system must be made effective when they materialise. This will happen around July 2015, as established in the draft GSB.

2. In the **adjustments to the national accounts** estimated by the Region for 2015, no adjustment is expected for **account 409/413**, reversing the tendency of previous years. The Region attributes the difference to the expected effect of the measures to curtail health spending planned for 2015. Likewise, an adjustment is calculated for **non-implementation**, valued at €308m, which the Region bases on the standard non-implementation occurring in previous years.

Report on the application of the corrective mechanisms established in Organic Law 2/20152, of 27th April, on Budgetary Stability & Financial Sustainability (article 21 of Organic Law 6/2013 on the establishment of an Independent Authority for Fiscal Responsibility and article 20 of the AIReF Statute).

Between 2010 and 2013 the Autonomous Region of Andalusia has achieved a fiscal adjustment of €2,450m. This is equivalent to over 1.7% of its 2013 regional GDP. The graph below shows that this adjustment is similar to that achieved by the Autonomous Regions sector as a whole (vertical green bars).

The graph also shows the expected fiscal adjustment for 2014 and 2015 in line with the targets established (dotted red line) and the amount needed to reach the 2015 target if the risks of not meeting the target for 2014 materialise (dotted brown line).



Note: The actual figure in 2013 includes the Region's valuation of the regularisation of pharmaceutical expenditure, which occurred as a one-off measure that year, accounting for 0.3% of regional GDP.

The Autonomous Region of Andalusia is deemed to have a high risk of non-compliance with the stability target, set at -1% of regional GDP for 2014, due to the meagre buffer it has to absorb possible deviations in its implementation against budget to date, along with the uncertainty attributed to specific revenue transactions. According to the available information for the issuing of the individualised Report on the main lines of the Autonomous Regions' budgets for 2015 (information from the questionnaire submitted by the Ministry of Finance & Public Administration, MINHAP, updated by the Region, where applicable, and draft budgetary plans presented by the Autonomous Regions) and taking into account the data on the Region's execution of non-financial transactions to 30th September¹, in national accounts terms, certain specific circumstances can be observed in the Autonomous Region of

¹ According to the latest data published by the IGAE (Government Comptroller's Office), the Region's net borrowing to September 2014 was €2,031m. This is 1.4% of its GDP, one tenth of a percentage point higher than the figure recorded on the same date of 2013.

<http://www.igae.pap.minhap.gob.es/sitios/igae/es->

[ES/ContabilidadNacional/infadmPublicas/infadmcomunidadesautonomas/Paginas/imnofinancierasCA.aspx](http://www.igae.pap.minhap.gob.es/sitios/igae/es-ES/ContabilidadNacional/infadmPublicas/infadmcomunidadesautonomas/Paginas/imnofinancierasCA.aspx)

Andalusia that, along with the tension observed in budget execution —above all in expenditure— could mean a deviation in its compliance with the targets established for 2014. These are mainly driven by the fact that a significant proportion of the capital revenues are not expected to be obtained until almost year end in the terms indicated in the section *Analysis of the possible deviation from the 2014 budgetary stability target*.

In compliance with article 20.1, section b) of the AIReF Organic Statute, this possible deviation is explicitly stated in this report, in an independent section, for the effects established in Organic Law 6/2013, of 14th November.

Consequently, this report is submitted to the Ministry of Finance & Public Administration as it is deemed advisable to activate the measures established in article 19 of Organic Law 2/2012, of 27th April, on Budgetary Stability & Financial Sustainability.