



Independent Authority  
for Fiscal Responsibility

## Report 23/18

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# Report on the initial budgets of the Local Governments: 2018

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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## **Executive Summary**

The Independent Authority for Fiscal Responsibility (AIReF) is required to continuously monitor the budgetary cycle, assessing the budgets of the Public Administrations (PAs) from the initial preparation and approval stages. Specifically, this early assessment allows the various administrations to adjust their revenue and expenditure estimates and expenditure commitments throughout the processing and execution of the budgets monitored by AIReF until year-end.

In this report, AIReF has assessed the 2018 budgets of the Local Governments (LGs), and has analysed the changes between these and the budgetary lines previously reported in December, as established by AIReF's Organic Law and Statute.

The LG sub-sector is characterised by a very high and heterogeneous number of entities, therefore, as usual, AIReF has analysed their budgets in three areas or levels: aggregate behaviour of the sub-sector, the LGs with the highest population and budget and the LGs with the greatest sustainability problems.

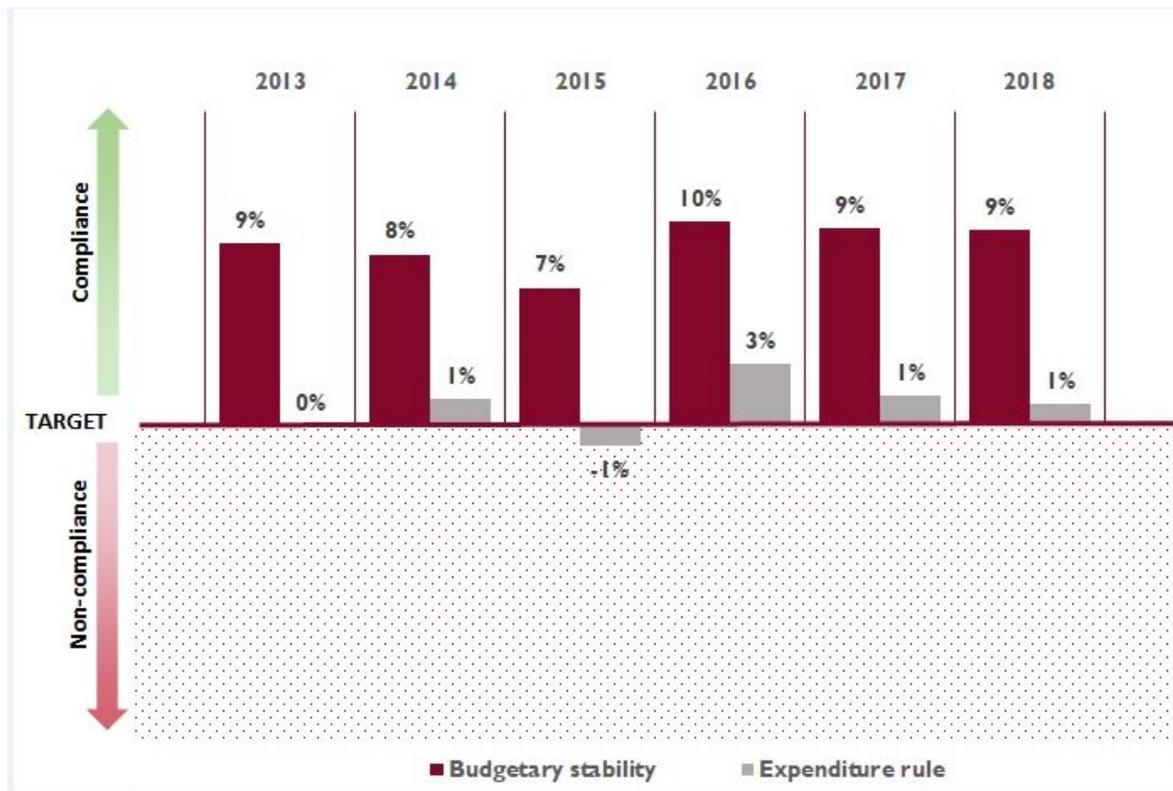
In addition, this Report now includes an initial introduction to the actions of the financial supervision agencies of the LGs individually analysed, in order to become aware of the possible problems surrounding the exercise of their powers in terms of monitoring compliance with the fiscal rules in the current regulatory context.

### **Local Government Sub-sector**

AIReF considers it to be feasible that, in 2018, the LG sub-sector will achieve a surplus similar to that recorded in 2017 (0.6% GDP), with an increase in revenue and expenditure of around 2%, as it is expected that the revenue and expenditure measures known to date will not significantly alter the path recorded in recent years.

Stable revenue growth with little link to the economic cycle, the expenditure moderate increase closely linked to population variables and the role of local financial controllers as guarantors of the fiscal rules are the main guarantee of a surplus situation that is maintained over time.

COMPLIANCE WITH STABILITY TARGET AND EXPENDITURE RULE 2013-2017 SITUATION AND 2018 FORECAST



**Note:** Positive (compliance) or negative margin (non-compliance) on the annual budgetary stability target and expenditure rule as a percentage of non-financial revenue and maximum computable expenditure, respectively.

**Source:** MINHAFP and AIReF estimates

Since 2013 the sub-sector has maintained a surplus of around 9% of its revenue, which has allowed it to comply with the expenditure rule, except in 2015. For 2018, a surplus of 0.6% GDP would enable compliance with the expenditure rule and a level of indebtedness of 2.2% GDP to be reached, 0.5% below the 2018 target of 2.7%.

## Large Local Governments

As on previous occasions, this report includes an individual assessment of the large local corporations: 16 City Councils with a population of over 250,000 inhabitants and 3 Provincial Councils, 1 Municipal Council and 1 Island Council, which are those with the largest budgets and greatest population concentration. These 21 large corporations plan to reach a surplus of around €2,179 million in 2018, nearly 300 million more than in 2017.

Despite this, for the City Councils of Madrid, Palma de Mallorca and, to a lesser extent, Barcelona, Bilbao and Valencia, AIReF appreciates risk of non-compliance with the budgetary stability target that, with the exception of the City Council of Barcelona, is the target committed to in the Economic-Financial Plans (EFPs) and/or the Adjustment Plans (AP) in force.

However, in the context of the large LGs the risk of non-compliance with the stability target is not generally rooted in the possibility of obtaining a negative budgetary balance, but rather in the difficulty of achieving the surplus, necessary in order to comply with the expenditure rule, which shall be set with the approval of a EFP and/or AP. The main tensions are appreciated within the scope of the expenditure rule and therefore, from the point of view of the early correction of possible deviations, there is no justification for eliminating the obligation to communicate the Local Financial Controller's report on compliance with the expenditure rule in the initial stages of the budgetary cycle (main budgetary lines and initial budgets) imposed with ORDER HAP 2082/2014.

## Local Governments with the greatest sustainability problems

In the rest of the sub-sector, other than the 21 large LGs selected, AIReF estimates that, in aggregate terms, they will continue to contribute to the local sub-sector surplus in 2018 in a stable manner. However, as indicated in previous reports, within this overall net positive situation there are some city councils with clear sustainability problems in the medium and long term, which manifest themselves in debt-to-GDP ratios above 200% of their current income, remnants of persistent negative cash-flows and average payment periods much higher than the 30 days established in the legislation in force. In this Report AIReF calibrates the assessment of the debt situation of the 18 LGs with over 20,000 inhabitants with consolidated medium-term sustainability problems, selected in the previous Report, by incorporating the data available on the budgetary result achieved in 2016 and 2017, and estimated for 2018, as an indicator of the capacity and speed of return to a sustainable situation in the medium or long term (debt-to-DGP ratio of below 75% of their current income). As a result of considering these data, AIReF has seen an improvement in the situation of the City Councils of Alcorcón and San Andrés de Rabanedo, which, under the assumption that the behaviour over the last few years has been consolidated, has led to a decline in the level of risk, from high to moderate. Conversely, AIReF has lowered the rating for the City Councils of Algeciras, Aranjuez and Isla Cristina.

In this report AIReF makes a number of recommendations to the Ministry of Finance and Public Function (MINHAFP):

- To promote the regulatory changes required to specify the content and extent of the financial supervision competences of the LGs, as well as the corrective mechanisms to apply to these agencies in the event that these powers are not exercised in accordance with the regulations.
- To amend the Order by which they implement the information provision obligations established in the Organic Law on Budgetary Stability and Financial Sustainability (LOEPySF), setting dates for the periodic updating of the data published, beyond that originally established, in such a way as to reflect the latest situation in the economic and financial information of the LGs.
- To convene and lead, for the City Councils of Jerez de la Frontera, Parla and Jaén, a committee of experts, attended by the protecting Autonomous Region, where appropriate, to analyse the reasons for which these City Councils have a critical level of sustainability risk and propose the most appropriate solutions.

- In addition, in this the AIRcF formulates a number of recommendations to the LGs analysed individually, as well as their supervision bodies, aimed at ensuring compliance with the fiscal rules (City Councils of Barcelona, Bilbao, Madrid, Palma de Mallorca and Valencia) and improve their sustainability (City Councils of Algeciras, Gandía, La Linea de la Concepcion, Aranjuez, Totana, Navalcarnero, Isla Cristina, Ayamonte, Alcorcon, Valdemoro, Sanlúcar de Barrameda, San Andrés del Rabanedo and Almonte).

The President of AIRcF

A handwritten signature in black ink, appearing to read 'JL Escrivá'.

José Luis Escrivá