

## **RECOMMENDATIONS ISSUED BY AIReF IN Q3 2015:** **SUMMARY**

The comply or explain principle is the key tool available to AIReF to fulfil its remit. Under this principle public administrations must follow the recommendations made by AIReF or explain the reasons why they depart from them. Implementation of the recommendations made by AIReF should give rise to a constructive, transparent dialogue between the independent fiscal institution and the competent levels of government.

In the third quarter (Q3) of 2015 AIReF issued 27 recommendations to the public administrations (PAs) in Spain in its i) reports on the Economic-Financial Plans (EFPs) of Asturias, Castilla y León, Catalonia, Madrid, Murcia, Basque Country and La Rioja; ii) report on expected compliance with the 2015 budget stability, government debt and expenditure rule targets by the public administrations in Spain; iii) report on the setting of individual budget stability and government debt targets for the Autonomous Region (ARs); and iv) report on the General Government sector budget drafts and main lines: State General Budget 2016. The recommendations were addressed to the Ministry of Finance & Public Administrations (19), the Ministry of Employment & Social Security (4), the Ministry of Economy & Competitiveness (1) and to various Autonomous Regions (6)<sup>1</sup>. Following Resolution 14/15 on the Calendar for requesting and receiving information to issue reports and follow-up on recommendations for 2015<sup>2</sup>, the administrations were sent a letter requesting information on their intention to comply or depart from the recommendations made. The letter triggered a subsequent dialogue between AIReF and the public administrations concerned, which AIReF regards as a positive development given that all the administrations have responded.

### ***Autonomous Regions***

The recommendations made to the Autonomous Regions (ARs), as well as some of those addressed to the Ministry of Finance and Public Administrations (MINHAP), are all related to the implementation of the measures contained in Spain's Organic Law for Budgetary Stability and Financial Sustainability (*Ley Orgánica de Estabilidad Presupuestaria y Sostenibilidad Financiera*, LOEPSF). In the report on expected compliance with the targets, AIReF recommended adapting the Economic-Financial Plans (EFPs) to the actual circumstances of each Autonomous Region in a way that guarantees the substantive aspects of the LOEPSF. It also recommended the procedure for approving the plans as well as their content should be made more flexible. The response from the Ministry of Finance & Public Administrations was that the format of the EFPs already covered those aspects and it was not necessary therefore to extend the duration to a multiyear

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<sup>1</sup> Each recommendation can be addressed to more than one administration.

<sup>2</sup> [Calendar for requesting and receiving information to issue reports and follow up on recommendations in 2015](#)



framework of three or four years. However, AIReF maintains that for the fiscal rules to be effective they have to be credible and applicable. This would justify a more flexible interpretation of the LOEPSF for those Autonomous Regions for which, given the deficit level they have recorded, it would not be feasible for them to make the fiscal adjustment in a year that requires them to comply with the stability target. That adjustment would have to be made in a medium-term time period in the framework of the EFP.

However, the Autonomous Regions that have sent AIReF their EFP would have complied generally with this recommendation by providing the multiyear information. In this respect AIReF highlights the efforts made by Extremadura to cover the annual correction commitments within a multiyear path and identify in the plan the economic and financing assumptions on which the forecast development of its revenue and expenditure are based. Likewise, other Regions with recurring deviations from their targets like Murcia or Valencia have also provided multiyear information but more could have been done to provide a more likely path. In any event, the Fiscal and Financial Policy council (CPFF, *Consejo de Política Fiscal y Financiera*) only approved the Catalonia EFP in its meeting held in July 2015 and has not met again since.

Moreover, the Balearic Isles has not sent AIReF any EFP and so has failed to comply with the obligation contained in the LOEPSF. As it has not sent in the plan the recommendation is not complied with. With regard to the EFPs on which it has issued a report, AIReF's view was that additional measures needed to be included in 2015 and 2016 for compliance with the targets in the case of Murcia and Catalonia, and in 2015 in the case of Madrid. Although the EFP approved for Catalonia contains changes compared to the plan reported on previously, no measures adding up to a significant amount have been incorporated and so AIReF deems the recommendation not to have been complied with. In the case of Murcia and Madrid, insofar as their EFPs have not been approved it is not possible for AIReF to state a view on compliance with its recommendations.

As a result, at year-end 2015 and with the exception of Catalonia mentioned above, the EFPs corresponding to non-compliances with the fiscal rules in 2014 have still not been approved. This circumstance has a negative impact on the possibility of compliance with the budgetary stability targets by the Autonomous Region subsector. In any event, AIReF continues to hold the view that it would be desirable to extend the time frame of the EFPs and adapt them to the actual circumstances of each Autonomous Region so that they are not simply a mere formality.

Also within the scope of the Autonomous Regions, AIReF recommended the setting of differentiated deficit targets in 2016 and 2017 so that the convergence path towards a balanced budget for 2018 would be possible. In addition, for future years targets should be set on the basis of a prior feasibility analysis so that they are realistic and achievable and there is consistency between the budgetary stability target and compliance with the expenditure rule. Nevertheless, after a debate and a vote on the subject at its meeting, the CPFF decided to depart from the recommendation and approve identical targets for all the ARs. That decision was then published as an Agreement of the Council of Ministers on 11 September 2015. Furthermore, the position taken by the Ministry of Finance and Public Administrations is that the CPFF reported favourably on the proposal that was approved and as the President of AIReF is a non-voting member of that body AIReF would have had an opportunity to make its own proposal on setting the targets at that meeting. AIReF's view, however is that its mandate is to make a report on the proposal for targets



prepared by MINHAP prior to its submission to the CPFF meeting but that making its own specific proposal on the setting of the targets does not fall within its remit unless so requested by the CPFF.

As far as debt targets are concerned, AIReF reiterated its recommendation to establish a system that would allow it to make an ex ante evaluation, as well as to make public the agreements reached by the Government's Delegated Committee on Economic Affairs (CDGAE) on the subject. On this point MINHAP's view is that the Autonomous Regions already have sufficient information and it defends this position and to justify why the CDGAE agreements are not made public on the basis of the confidentiality of the deliberations of Government collegiate bodies. Nevertheless, AIReF will continue to make the same recommendation insofar as the information to appraise ex ante compliance with the debt targets is insufficient.

#### ***Financial sustainability of subsectors***

In its report on expected compliance with the targets, AIReF repeated its recommendation on the sustainability of the Social Security system addressed to the Ministry of Finance and the Ministry of Employment and Social Security. The response from both ministries made reference to the development of additional provision 85 in the law on the 2016 State General Budget (SGB) which states that: *"...the Government will make progress towards achieving the compatibility of budgetary stability targets and financial sustainability with those of full financing of non-contributory and universal benefits to be paid for out of the General Government sector budgets, and for which it will assess the conditions of the benefits included in the system that might be given that description"* Subsequently, in the report on the 2016 SGB AIReF recommended the development of this provision and both the Ministry of Finance and the Ministry of Employment have given a positive response to that recommendation. Furthermore, the Ministry of Employment has indicated that implementation of the recommendation would always have to be agreed within the Toledo Pact.

Along the same lines, the report on expected compliance with the 2015 budgetary stability, government debt and expenditure rule targets reiterated the recommendation concerning the need to analyse the financial capacity of each subsector by taking into account the services provided according to the current distribution of competences. In answer to this recommendation, the Ministry of Finance has stressed that this analysis is already being conducted and has taken concrete form in the local government reform. In any case, MINHAP is of the view that the Government is the competent body to determine when is the right moment to carry out this analysis. Although it acknowledges the circumstances outlined by the Ministry, AIReF stresses that it is essential to bring the level of expenditure into line with the resources that come from the financing system and with compliance with the expenditure rule, and so will continue to make this same recommendation in its next reports.

AIReF made a further recommendation for additional information to be provided in the Stability Programme broken down by subsectors so that it could be considered as the EPF of the Central Government and the Social Security Funds. The response from the Ministry was to explain that the level of detail in the Stability Programme is the same breakdown as in the EPFs and it highlighted the inclusion of new information in this



year's Stability Programme Update. Nevertheless, AIReF still holds the view that this information is not sufficient.

### ***Expenditure rule***

AIReF has also reiterated once again in the different reports it published in the third quarter of 2015 the importance of having the necessary information on the expenditure rule as well as regulating its calculation methodology through a ministerial order. One positive step in this direction is the publication by the State General Comptroller's Office (IGAE) of the Guide for the calculation of the expenditure rule in the Autonomous Regions, so complying with AIReF's recommendation. However, with the publication of the guides for the Autonomous Regions and the Local Corporations, MINHAP believes that a ministerial order regulating the methodology is not necessary. In this regard, AIReF holds the view that certain aspects of the current regulation contained in article 12 of the LOEPSF are not sufficiently developed and nor is the methodology needed for each administration to be able to calculate and monitor the expenditure rule. That is the reason why AIReF believes it is necessary for all those aspects to be developed through a ministerial order.

As far as the inclusion of the information in the budgets is concerned, the Ministry of Finance and Public Administrations believes it is not under any obligation to include in the Economic-Financial Report that accompanies the State General Budgets the figure for non-financial uses with the breakdown required for the calculation of the expenditure rule or the information on the methodology used because it says that the information available now is sufficient. AIReF is still of the view that this information is necessary for it to properly discharge its functions. Nevertheless, the Ministry has notified AIReF of its commitment to include information on the degree of compliance with the expenditure rule in its monthly national accounting reports.

As for the Autonomous Regions, even though the guide on methodology for them in general was published subsequent to the preparation of the regional budgets, Galicia, Canary Isles, Castilla y León, La Rioja, Murcia and Andalusia have all fulfilled their commitment to include information on the expenditure rule in their respective budgets.

### ***Transparency***

With the aim of overcoming the limitations to scope it came across when preparing its reports, AIReF recommended both in the report published on expected compliance with targets and in the report on the 2016 SGB the preparation of initial budgets and settlement forecasts in national accounting terms. However, no progress has been made in this direction in the presentation of budgets for 2016.

On the subject of transparency, AIReF also recommended the publication in the SGB of the information on the Pension Revaluation Index (PRI). The understanding of the Ministry of Employment and Social Security, however, is that the information provided is sufficient to infer the application of the minimum rate set by the legislation and that more information would have to be given only when the result of the formula was higher than the minimum rate. AIReF believes to the contrary that bearing in mind the relevance of this



issue for society as a whole greater transparency is required and that is why it insists that this information should be made public regardless of the result of the formula.

Likewise, the recommendation was made to the Ministry of Finance and Public Administrations that it should publish information on the economic impact in the financial year of the use of normative taxation competences by the Autonomous Regions and that it should include in the SGB information on the entities that are not public entities but that are still included in the Central Government subsector for the purposes of ESA 2010.

In response, the Ministry of Finance and Public administrations has told AIREF that one of the priorities of the Government is to promote economic and financial transparency in the General Government sector. Consequently, insofar as the means are available to do so and it does not entail any increase in operating costs, MINHAP intends to continue promoting measures that might contribute to improving the economic, financial and budgetary information on the General Government sector.

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