



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

In the two years 2014-2015, the Autonomous Region of Cantabria must make a fiscal effort equivalent to 0.5% of its expected GDP for 2015. At year-end 2013, the Region's net borrowing was €151, which is 1.2% 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 €58m. This is 0.5% of the regional GDP forecast for 2015.

The Autonomous Region of Cantabria is deemed likely to achieve the deficit target for 2015, which has been set at -0.7% of its regional GDP. However, the tension observed in the 2014 year-end estimate and in the 2015 forecasts for certain items could mean that additional retrenchment not initially envisaged in the plans would be required in 2015. On the basis of the information available in the main budget lines questionnaire submitted by the Region, facilitated by the General Government Financial Information Centre (Ministry of Finance & Public Administration, MINHAP) and in the draft budget published by the Region for 2015, it is deemed likely that the Region will comply with the stability target for this year. However, the Region's 2014 year-end forecasts are very tight. Tension can be observed in the revenue estimates, especially revenue from the disposal of property assets.

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.

AIReF:

José Abascal, 2, 2º floor. 28003 Madrid. Tel. +34 91 010 08 95
email: Info@airef.es. website: www.airef.es

Should this uncertainty materialise, it would mean that additional retrenchment not initially envisaged in the plans presented would be required in 2015. This situation is accentuated by the uncertainty surrounding the forecasts for revenues of this kind observed in the 2015 draft budget and by certain tax revenues.

Analysis of compliance with the 2014 budget stability target

The Autonomous Region of Cantabria expects to achieve its 2014 stability target with a 0.8% increase in revenues and a 1.1% increase in expenditure in public-sector accounting terms. On the basis of the information facilitated in the main budget lines questionnaires submitted to the Ministry of Finance & Public Administration, by year-end 2014 the Region expects to achieve the stability target set for the year at -1% of regional GDP. This outcome would be obtained by a 0.8% increase in non-financial revenues, driven basically by capital revenues, and a 1.1% increase in non-financial expenditure, which affects current expenditure. Likewise, adjustments in national accounts terms are expected that will correct the budget outcome and bring down the deficit by €30m.

The primary deficit expected by the Region is 0.4% of regional GDP in public-sector accounting terms. Expected non-financial interest expenditure (chapter 3 of the expenditure budget) for year-end 2014, accounts for 0.8% of regional GDP.

Revenues from the funding system paid out by the State to the Region went down 2.8% 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 2.8% against the amount received by the Region in 2013. The average reduction for all the Autonomous Regions under the common regime is 3.3%.

The Region has not quantified the measures adopted for this year. The Region has not reported on the measures adopted for 2014 with respect to either revenues or expenditure in the main budget lines questionnaire. However, according to the supplementary information submitted by the Region, the budget execution data to 30th September and the information presented in the draft Economic and Financial Plan (EFP), the Region has agreed that €81m in budget appropriations for 2014 will be non-available, €59m of which has been declared non-available at 30th September.

Tension can be observed in certain revenue items at year-end 2014, but these could be offset by favourable performance from other budget headings. The 2014 year-end forecast expected by the Region is very tight. Possible deviations can be observed in the revenue scenario estimated for 2014. These are based on:

- **Disposal of property assets:** The Region expects to obtain €22m more than in 2013. However, the revenues accrued in this chapter to September have fallen 22.5% against the same date the previous year and the Region has not submitted documentation with any specific list of the assets it intends to sell, or the calendar or procedure it intends to use to underpin the materialisation of this increase in 2014.
- **Rates, public prices and other revenues:** The Region expects to obtain €11m more in this chapter than in 2013 — 15%— without reporting any measures that could appear to support this effect. In particular, the revenues accrued from rates to September have fallen by 6.5% year-on-year.

However, the tension observed in the above lines could be offset by the favourable performance of the expenditure budget. The Regional Department of Economy, Finance and Employment has been authorised to declare non-available budget appropriations to the value of €81m. This could offset the deviations identified in the revenue scenario.

Analysis of compliance with the 2015 stability target

The Autonomous Region of Cantabria expects to achieve its 2015 stability target with a 5.3% increase in revenues and a 3.3% increase in expenditure in public-sector accounting terms. For 2015, the budget stability target for the Region is -0.7% of regional GDP. According to the information available, this outcome would be obtained with a 5.3% increase in non-financial revenues, driven mainly by capital transactions, and a 3.3% increase in non-financial expenditure, which would affect all chapters except chapter 3 financial expenditure. Likewise, changes to the national accounts would make positive adjustments that would bring the deficit down by an estimated €35m. According to the Region, this would enable it bring its borrowing needs in line with the stability target set.

The primary deficit expected by the Region is 0.2% of regional GDP in public-sector accounting terms. Expected non-financial interest expenditure (chapter 3 of the expenditure budget) for year-end 2015, accounts for 0.7% of regional GDP.

Revenues from the funding system that the State is expected to pay out to the Region increase 3.4% against 2014. The largest item recorded as non-financial revenues are from the funding system payable with interim instalments and final settlement. The 2015 General State Budget envisages a 3.4% increase in these funds against 2014. The average increase for all the Autonomous Regions under the common regime is 2.8%.

The Region has not quantified the measures adopted for this year. The Region has not reported on the measures adopted for 2015 with respect to either the revenues or the expenditure in the main budget lines questionnaire.

The Autonomous Region of Cantabria is deemed likely to achieve the deficit target for 2015, which has been set at - 0.7% of regional GDP. The scenario forecast by the Region in the plans presented seems to be consistent with achieving the stability target set for this year. However, the tension observed in 2014 year-end revenues estimate could mean that additional retrenchment not initially envisaged in the plans would be required in 2015. This situation is accentuated by the fact that uncertainties appear in the 2015 draft budget concerning forecasts in the following revenue items:

- **Tax on Asset Transactions & Documented Legal Acts:** An increase of €13m (18%) against the previous year is expected. The Region justifies this increase with the improvement in the economy, but the forecasts made by the Region in the supplementary information it submitted, with respect to the growth in these tax revenues in 2014 against 2013 do not appear to be borne out by their performance. Although a 20% increase in the Tax on Asset Transactions is expected for year-end and a 3% increase in Documented Legal Acts Tax, accrued revenues to September 2014 show an increase of only 0.7% for both these items, which indicates a certain risk of deviation from the forecasts of the 2015 scenario.
- **Disposal of property assets:** €30m is expected in revenues. Given the performance of these revenues in previous years and the lack of a detailed sales plan, the materialisation of this forecast does not seem to be supported.