

# Report on the Public Administrations' Initial Budgets: Local Corporations 2017

(Art.17.2 of the LOEPSF)

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

AIReF draws up the report on Local Corporations' (LC) initial budgets, incorporating new information at its disposal since the December 2016 report was issued on the main aspects of their 2017 budgets from the perspective of their capacity to guarantee compliance with budget stability and government debt targets and the expenditure rule by the end of this financial year. An analysis has been made of both the LC subsector and the 21 bodies individually considered in the previous report.

The data at AIReF's disposal confirms the conclusion reached in the previous report, inferring that it is very likely that the LC subsector will meet the budget stability target by the end of 2017, consolidating the results achieved in 2016 without any drop in the excess margin that it achieved last year, as indicated in the report on the main aspects of the budgets. This new trend is not only attributable to the stability of the subsector's revenue, but also largely due to the over 20% drop in investment last year, which is also expected to occur this year, brought about by the delay in the approval of the General State Budget and, by extension, by the delay in the approval of authorization for sustainable financial investments, combined with the curb on the growth of non-financial expenditure implicit in compliance with the expenditure rule.

Unlike the years prior to 2016, the big city councils do not seem to have followed a similar behaviour pattern to the other LCs, given that they display a tendency toward a slight drop in the aggregate surplus, while the subsector has seen an almost 40% rise in it, meaning that the other Local Entities (LEs) must have boosted their net lending by over 60%.

As for compliance with the expenditure rule, AIReF believes that, by the end of 2017, the LC subsector will probably comply with this rule. By meeting the stability target of at least 0.6% of the GDP, it will manage to comply with the expenditure rule, since eligible expenditure will not exceed the permitted limit.

In terms of the limit on the debt, AIReF believes that, in 2017, the shrinking trend for the subsector as a whole will continue, leading to a debt of about 2.6% of the GDP. If the continuance of Local Corporation surpluses is confirmed in 2017 and the following years, the outstanding debt/GDP ratio by the close of 2020 could stand at around 2%, below the target established in the Organic Law on Budget Stability and Financial Sustainability (LOEPSF).

AIReF repeats the general recommendations made in its previous report concerning the need to set in place legal mechanisms aimed at preventing an impasse in situations of repeated non-compliance when there is no approved Economic & Financial Plan (EFP); the need to publicize firm commitments by the

different financial supervisory bodies - the Ministry of Finance & Civil Service (MINHAFP) and autonomous regions (AR) respectively - in matters concerning the common interpretation of stability legislation; the inclusion of the expenditure rule's calculation in reported information on the main budgetary aspects and initial budgets; the need for the expenditure rule to be placed on an equal footing with the other rules in terms of corrective measures; and the need to regulate individual levels of debt.

Recommendations are also made on procedures by the financial supervisory bodies in order to guarantee the necessary coordination between these bodies and others in charge of approving other plans required under stability legislation, such as adjustment plans, so that both documents give the same LC compliance limits with the fiscal rules for coinciding years.

As for the appraisal that was made at an individual level, the conclusions of the former report on the 21 analysed LEs continue to hold true in terms of compliance with the stability target (0% or the target established in the corresponding Economic & Financial Plan), where the trend toward a reduction in the surplus achieved in previous years was deemed very likely.

Of the 21 LCs that were analysed, Alicante, Barcelona, Bilbao, Malaga, Palma de Mallorca and Zaragoza City Councils and Barcelona and Valencia Provincial Councils have an Economic & Financial Plan approved by their supervisory body and in effect for 2017; Las Palmas de Gran Canaria, Murcia and Valencia City Councils are still within the deadline for the approval of an EFP that sets the targets for 2017; while, in the case of Madrid and Seville, the deadline for the approval of this plan has passed.

None of the LCs under analysis showed any risk of non-compliance with the stability target in 2017, with the exception of Barcelona City Council and Valencia Provincial Council, where a risk of failing to comply with the limits set in their respective published EFPs was noted. Bilbao City Council approved its 2017 budget with a deficit of 30 million euros, in keeping with the EFP approved subsequently by Vizcaya Provincial Council. Since EFPs are approved within the framework of stability legislation, under no circumstances can they overstep the reference law, under the terms of which budgets must be approved that are either balanced or have a surplus.

With regard to the expenditure rule, AIR<sup>e</sup>F believes that Barcelona, Gijón, Madrid, Palma de Mallorca, Córdoba, Valladolid City Councils, Seville Provincial Council and Tenerife and Mallorca Island Councils will probably fail to comply with this rule at the close of 2017. In the case of Barcelona City Council, which currently has an amended version of the initial EFP in effect (due to non-compliance with the expenditure rule in 2015) containing new commitments approved for 2017, there is a risk of non-compliance with these new undertakings by end of the year.

In the case of Las Palmas de Gran Canaria, Murcia and Valencia City Councils, it was not possible to assess their compliance with the stability target and expenditure rule by late 2017, since they are still within the deadline for the approval of an EFP, having failed to comply with the 2016 expenditure rule setting the targets for 2017 and 2018, although compliance with the legal target is deemed likely from the data at our disposal.

As for the debt limit, there are only significant changes to the report on the main aspects of the budget in the case of Murcia City Council, since its debt has risen by almost 50 percentage points due to the loan allocated to the 2016 budget late in the year for investment to the city tramline of 173 million euros

In its recommendations to the individually analysed LCs, AIR<sup>e</sup>F advises Madrid and Seville City Councils – which do not currently have an approved EFP in effect – and Valencia Provincial Council – which has an approved one whose commitments it failed to meet by a narrow margin in 2016 – to adopt the measures contemplated in the LOEPSF. It advises Barcelona, Palma de Mallorca, Córdoba, Valladolid, and Gijón City Councils, Seville Provincial Council and Tenerife and Mallorca Island Councils, which are expected to fail to comply with one of the fiscal rules by the end of 2017, to take the necessary steps to guarantee compliance by the final months of the year. It urges L'Hospitalet de Llobregat, Malaga, Vigo and Zaragoza City Councils, where a certain risk of non-compliance with the expenditure rule in 2017 has been identified, albeit by a narrow margin, to monitor the execution process very closely so as to guarantee compliance by late 2017. It advises Bilbao City Council to take steps during the execution process to guarantee compliance with the stability target by the close of the year, and it recommends that Catalonia Autonomous Region and Vizcaya Provincial Government should take the necessary steps to ensure that the EFPs approved for Barcelona and Bilbao City Councils are brought in line with current legislation.

## I. Purpose of the Report and Limitations on its Scope

The purpose of this report is to assess the main variations in the budgets approved for 2017 by the LCs and the main budgetary aspects reported by AIR<sup>e</sup>F in December 2016, together with the likelihood that these budgets will manage to meet the budget stability and government debt targets and expenditure rule by the end of 2017. To do so, an analysis of the subsector was conducted using data from the budgets approved for 2017, supplied by the Central Information Office of the Ministry of Finance and the Civil Service (MINHAFP) based on data reported at a local level and then taken within the context of the national total. For the individual assessment of the 21 selected LEs in AIR<sup>e</sup>F's report on the main aspects of the budgets for 2017, information from the said entities was used.

AIR<sup>e</sup>F was able to assess the likelihood of the LCs' approved budgets for 2017 complying with the fiscal rules by the end of the year, since there was no limitation on the scope of the analysis. The data that was needed for the subsector's assessment was supplied by the Central Information Office (CIO) of the Ministry of Finance and the Civil Service (MINHAFP). This information was adjusted at the request of AIR<sup>e</sup>F by taking it within the context of the national total and, for the first time, it includes data on the necessary national accounting adjustments to assess the stability target, together with information on the components used to calculate the expenditure rule. The only data that was not supplied was information on local enterprises classified as being part of the public administration under the European national accounting system and which are thus included in fiscal rule calculations. The data that was supplied is highly representative of the subsector, given that it accounts for about 88% of all city councils, provincial councils and similar bodies. This meant that AIR<sup>e</sup>F was able to evaluate the compliance of the local subsector's approved budgets for 2017 with fiscal rules by the close of the year.

Similarly, there were no relevant limitations to the individual analysis that might have affected the opinion given by AIR<sup>e</sup>F, since all the LEs under analysis complied with their duty to collaborate. This appraisal consolidates the assessment of the LEs given in the report on the main aspects of the budget for 2017, taking as its basis the 16 city councils with populations of over 250,000 inhabitants (Madrid, Barcelona, Valencia, Seville, Zaragoza, Malaga, Murcia, Palma de Mallorca, Las Palmas de Gran Canaria, Bilbao, Alicante, Córdoba, Valladolid, Vigo, Gijón and L'Hospitalet de Llobregat), the Provincial Councils of Barcelona,

Valencia and Seville, and the Island Councils of Tenerife and Mallorca. It is mainly based on information reported by these LEs, supplemented subsequently by data from the CIO.

## Results of the Assessment

### II.1 The LC Subsector

#### The budget stability target and expenditure rule

**As pointed out by AIReF in its November 2015 report on the main aspects of the 2016 budgets, LC budgets are not a good indicator of the results at the close of the financial year.** The analysis of compliance with fiscal rules in LCs' initial budgets does not serve to predict the results at the end of the year, since the budgets are adjusted in order to seek a balance, while the main constraint on the execution of expenditure is the application of the expenditure rule. As a result, local budgets tend to have a hidden surplus, mainly due to the over-estimation of expenditures, which are then adjusted when implemented. This claim is based on an analysis of the degree to which local budgets are implemented, using an econometric model with panel data. This showed that, from 2012, initial revenue forecasts tended to coincide quite well with their final implementation, while the expenditure that was finally implemented represented about 60% of the initially approved credits. The information from all the LCs' budgets, based on data supplied by these local bodies (which represent 88% of the total) sent by MINHAFP and taken within the context of the national total, confirms this claim, since it shows that, in 2017, the LCs expect to see a slight increase (1%) in their non-financial revenue as compared with 2016 and yet there is an over 11% estimated increase in expenditure, which represents a drop of more than 70% in the non-financial budget balance and a 45% decrease in their net lending

**AIReF considers it very likely that the LC subsector will meet the budget stability target in 2017 and achieve a surplus at the end of the year which at least manages to consolidate the results obtained in 2016.** The envisaged consolidation, in 2017, of the last reported budget execution data for 2016 and the possible effect of the delay in the General State Budget's approval on the execution of financially stable investments (FSI) seem to indicate that the LC surplus at the end of this year will be slightly higher than that of 2016.

At a local level, non-financial revenues are very stable in aggregate terms, having seen slight inter-annual increases of an average of around 2% since 2013, a trend which is not expected to change in 2017. As for expenditure, the curb on the growth of non-financial expenditure that is implicit in compliance with the expenditure rule and the reduction in investment at all levels of the local administration during the last year, which might be repeated in 2017, seem to indicate that these expenditure

levels will, at the very least, become more stable. This drop in investment will also be conditioned by the delay in the approval of authorization for financially sustainable investments in accordance with the Law Regulating the General State Budget if they cannot be implemented either totally or in part during the course of the year. This dual positive effect on the surplus is the reason why AIR<sup>e</sup>F deems it very likely that, by the end of this year, LCs' net lending capacity will at least consolidate the results of the previous year.

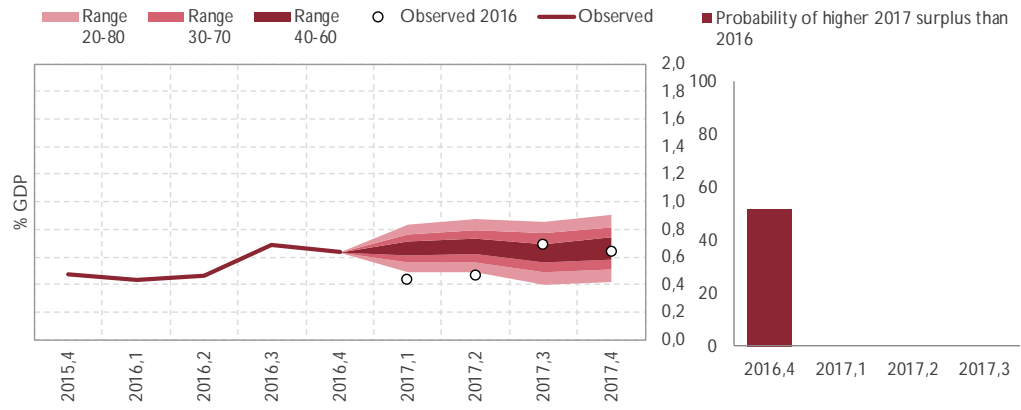
Figure 1 shows the LC subsector's net lending/net borrowing from 2012 (the first year of the application of stability legislation) through to 2016 and AIR<sup>e</sup>F's estimated range for the close of 2017, together with the likelihood of the surplus at the year's end being higher than that of 2016 (0.6% of the GDP), the last completed financial year. According to these forecasts, there is an approximate 55% likelihood of a surplus of over 0.6% in 2017. In addition, Figures 2 and 3 have been incorporated, both with an identical structure, with details of non-financial revenue and expenditure, showing the forecasted drop in revenue and expenditure in terms of the GDP because increases in their absolute values do not offset the growth of the GDP.

**In 2016, the local subsector had a surplus of 0.6% of the GDP.** LCs' net lending in 2016 stood at 0.64% of the GDP, the best result since budget stability legislation came into effect. As well as being determined by the 1.5% increase in non-financial revenue and the drop in non-financial expenditure of the same amount, it is also the result of an inter-annual growth in the national GDP of about 4% between 2015 and 2016.

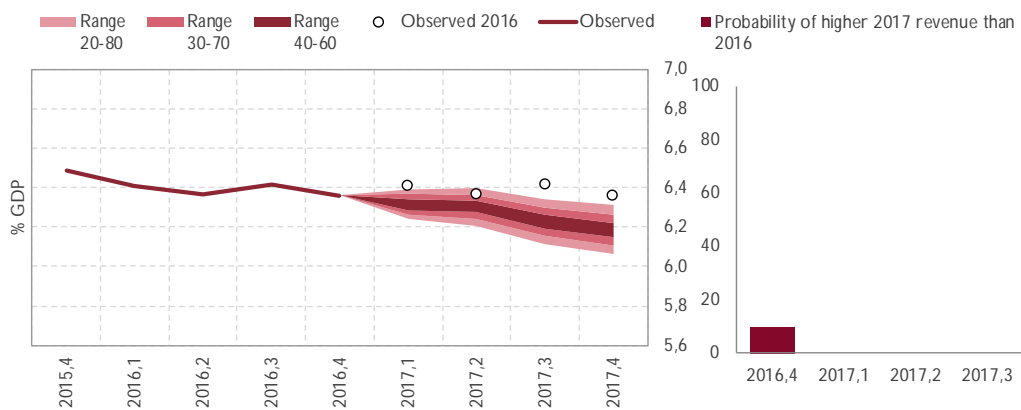
The published data for the third quarter of 2016 showed a clear new trend, with an inter-annual increase in the accumulated surplus of over 70%, mainly due to the positive net impact of revenue from the financing system of around 1,800 million euros and to the big drop in investment expenditure of over 25%. In the fourth quarter this upward trend was reinforced, leading to a local subsector surplus of over 7,000 million euros (over 0.6% of the GDP), almost 40% higher than that recorded in 2015.



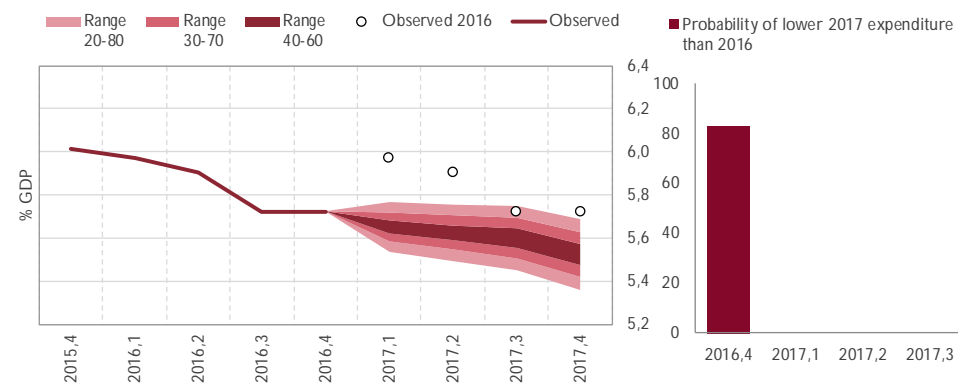
**Figure 1: LC subsector's net lending/net borrowing as a % of the GDP**



**Figure 2: LC subsector's non-financial revenue as % of GDP**



**Figure 3: LC subsector's non-financial expenditure as % of GDP**



Source: MINHAFP & estimations by AIReF.

**Meanwhile, according to the last national accounting data that was published, featuring information on the 8 big city councils for the first time, the latter's behaviour during the last quarter of 2016 did not follow the same pattern as that of the other LEs.** 2016 was the first financial year in which the budget was approved and fully executed by the nine local governments elected in May 2015. The last data reported to AIReF by the 16 big city councils that were individually analysed, which together accounted for 25% of the subsector's total surplus in 2016 (and almost 40% in 2015), confirm the conclusion that, in 2016, they displayed a different behaviour pattern from the other LCs.

As shown in Table 1, from the data for the 16 big city councils for the close of 2016, there is a trend toward a slight reduction in the aggregate surplus of an average of around 1.5%, while the subsector has boosted this lending capacity by almost 40%. This means that the surplus of other smaller LEs has grown by over 60%.

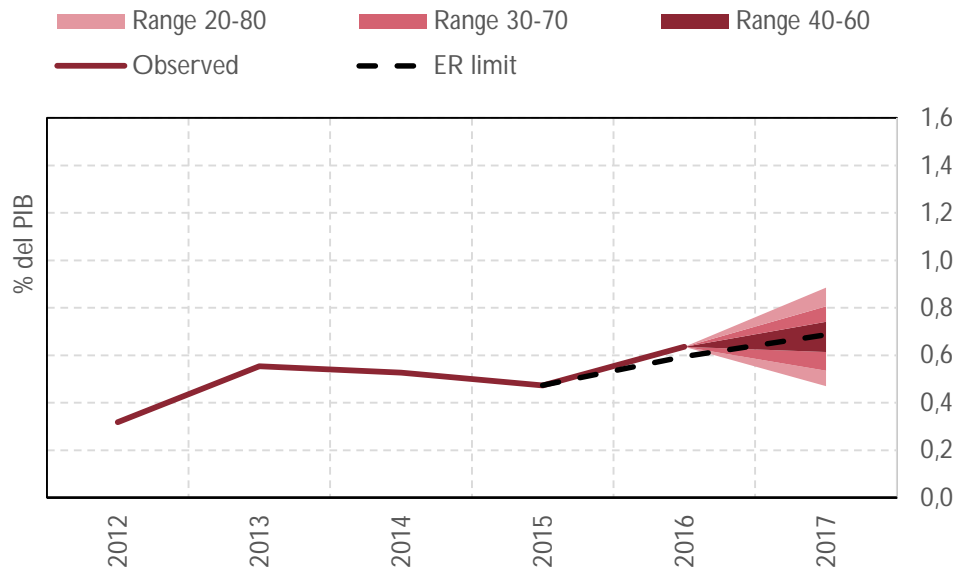
**Table 1: 2016/2015 VARIATION IN LCs' NET LENDING/BORROWING**

City Councils with over 250,000 inhabitants						
Net Lending (+) or Net Borrowing (-)						
City Council	Amounts (millions €)			% non-financial revenue		
	2015(Provisional)	2016(Estimate)	Inter-annual variation(%)	2015(Provisional)	2016(Estimate)	Variation 2016 - 2015
Alicante	25	53	108,9%	9,3%	19,6%	10,3%
Barcelona	168	113	-32,7%	6,1%	4,0%	-2,1%
Bilbao	27	11	-59,3%	5,3%	2,0%	-3,2%
Córdoba	42	73	76,2%	13,0%	23,2%	10,3%
Gijón	33	16	-49,5%	14,0%	7,0%	-7,0%
Hospitalet de Llobregat (L')	9	37	322,8%	3,9%	15,0%	11,1%
Madrid	1.379	1.115	-19,1%	27,8%	23,0%	-4,9%
Málaga	29	69	137,9%	4,5%	10,7%	6,2%
Murcia	48	-147	-406,3%	12,0%	-38,8%	-50,7%
Palma	5	48	869,8%	1,0%	11,6%	10,6%
Las Palmas de Gran Canaria	58	54	-7,2%	15,9%	15,5%	-0,4%
Seville	36	59	63,9%	4,3%	7,2%	2,9%
Valencia	131	126	-3,8%	17,1%	14,9%	-2,2%
Valladolid	19	28	44,7%	7,2%	10,3%	3,2%
Vigo	24	19	-21,4%	10,0%	8,1%	-1,9%
Zaragoza	-230	110	-147,8%	-30,2%	15,2%	45,4%
Aggregate figure 16 big city councils	1.803	1.784	-1,1%	12,8%	12,8%	0,0%
Remaining local corporations	3.291	5.299	61,0%	5,9%	9,3%	3,4%
Total local corporation subsector	5.094	7.083	39,0%	7,3%	10,0%	2,7%

Source: Data supplied by City Councils & MINHAFP.

The minimum lending capacity that will allow the LC subsector to comply with the expenditure rule in 2017 is over 0.6% of the GDP. This is deemed to be achievable since it is within AIReF's central forecast interval. AIReF estimated the maximum non-financial expenditure for the whole subsector that would ensure compliance with the expenditure rule in 2017, based on data supplied by the CIO at the close of 2016 and using calculations by AIReF. According to these estimations, if, in 2017, the subsector were to achieve a net lending of over 0.6% of the GDP, this surplus would guarantee compliance with the expenditure rule. This percentage is within AIReF's central interval (Figure 4).

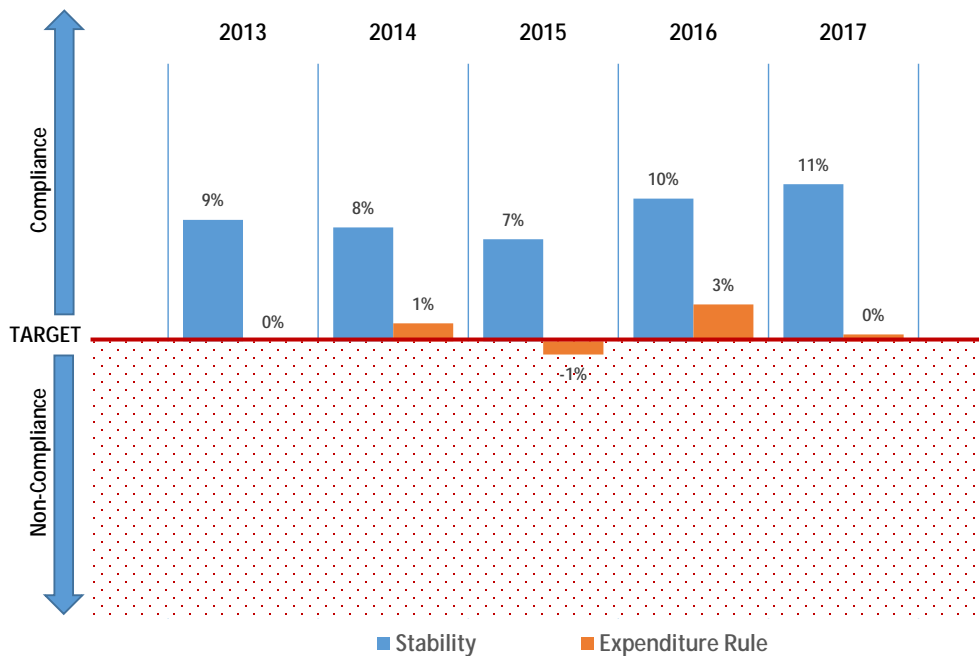
**Figure 4. NET LENDING BY THE LC SECTOR THAT WILL ENSURE COMPLIANCE WITH THE EXPENDITURE RULE**



Source: MINHAFP & estimations by AIReF.

**Given the LEs' level of revenue, the application of the expenditure rule guarantees a surplus of around half a point of the GDP in this subsector.** As highlighted in previous reports, in this subsector with a consolidated surplus since 2012 (the year when the Organic Law on Budgeting Stability and Financial Sustainability entered into force), compliance with the expenditure rule is stricter than the stability target, meaning that there must be a surplus at the close of each financial year in order to comply with this rule. Figure 5 shows the trend in the LC subsector's joint compliance with the stability target and expenditure rule from 2013 to 2016 and the amount that it exceeded or fell short of yearly compliance with these two fiscal rules, together with AIReF's estimations for 2017, shown in identical form. According to this graph, thanks to the subsector's margin in excess of the stability target since 2013, it has been able to comply with the expenditure rule, with the exception of 2015 when the sector just failed to do so. In 2017, taken as a whole, the LC sector is expected to comply with both rules and to achieve a surplus similar to that of 2016.

**Figure 5. COMPLIANCE WITH STABILITY TARGET & EXPENDITURE RULE. SITUATION FROM 2013 TO 2016 & FORECAST FOR 2017**



Source: MINHAFP & estimations by AIReF

## Government debt target

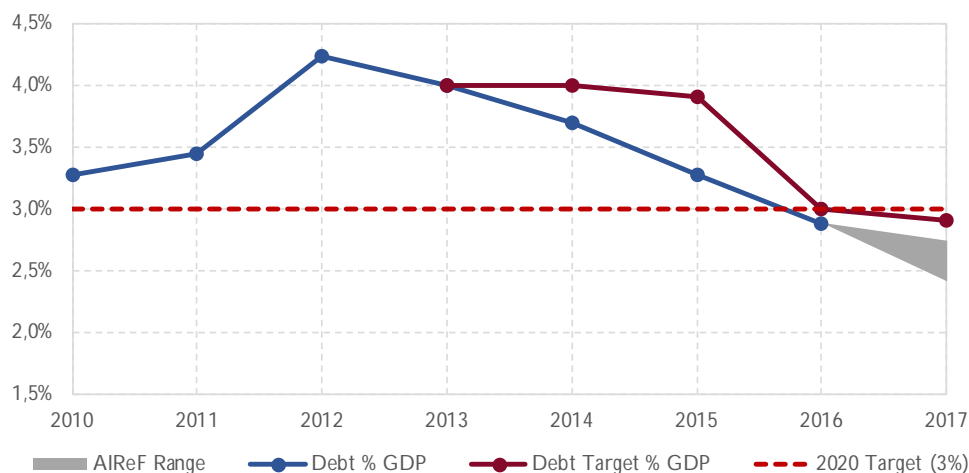
In 2016, the LC subsector successfully met the debt target of 2.9% of the GDP set for 2017 in the Agreement by the Council of Ministers of December 2<sup>nd</sup> 2016. This subsector ended 2016 with a debt of 32.094 million euros, 2.9% of the GDP, representing a reduction of almost 9% in relation to 2015 and the achievement of the target set for 2017 in 2016.

In 2017, in accordance with estimations by AIReF, this shrinkage will continue, leading to a debt of about 2.6% of the GDP. From AIReF's forecasts, it concludes that if the trend in local surpluses continues in 2017 and the following years, the debt will continue to shrink and the outstanding debt at the close of 2020 could stand at around 2% of the GDP.

Figure 6 shows the trend in the observed data for the outstanding debt (as a % of the GDP) and AIReF's estimated forecast at the close of 2017 in the most

favourable of cases;<sup>1</sup> that is, if the surplus that is obtained each year is used in its entirety to pay off the debt. It also includes the relative position with regard to the agreed target for the years from 2013 to 2017.

**Figure 6: THE LC SUBSECTOR'S DEBT (% of the GDP)**



*The 2013-2017 targets do not include level of debt increases from extraordinary mechanisms of payment to suppliers*

Source: Banco de España and AIReF estimates

**This healthy sustainable scenario in aggregate terms conceals individual situations that put the sustainability of the debt at risk.** From the data that was forwarded to AIReF by the CIO on the debt/current revenue ratio for the LEs at the close of 2016 (which determines each LC's possibility of falling into debt), one third of the LEs with a population of over 75,000 inhabitants per provincial capital or regional community faces such a risk. AIReF asked the CIO of MINHAFP for the outstanding debt ratio in December 2016 of those LEs that receive State tax revenue through the transfer of taxes (97 bodies). This information shows that 31 bodies, 30 of which are city councils, have a debt ratio of over 75% of their current revenue. Of these, 17 have a debt ratio of over 110%, preventing them from engaging in new borrowing operations, as shown in Table 2. The ones most at risk

<sup>1</sup> This hypothesis was made due to the lack of information on the amount of the surplus to be allocated to financially sustainable investments (6th Additional Provision of the LOEPSF on the regulation of special rules applicable to LCs concerning the allocation of the budgetary surplus). This amount is therefore not used to reduce the debt.

of an unsustainable debt because it accounts for over 200% of their current revenue are bodies with populations of between 75,000 and 250,000 inhabitants.

**Table 2. CITY COUNCILS WITH A POPULATION OF OVER 75,000 INHABITANTS WITH AN OUTSTANDING DEBT RATIO OF OVER 110% OF THEIR CURRENT REVENUE**

City Councils	Outstanding debt/consolidated current revenue ratio
Parla	504%
Jaén	464%
Gandia	344%
Jerez de la Frontera	284%
Alcorcón	225%
Ejido (EI)	211%
Huelva	171%
Algeciras	170%
León	162%
Torrejón de Ardoz	142%
Zaragoza	135%
Cuenca	128%
Lleida	125%
Cádiz	120%
Puerto de Santa María	113%
Telde	111%
Mérida	111%

 City Councils with ratio of over 200%

**Source:** Data supplied by City Councils & MINHAFP.

## II.2. Individual Analysis of the LCs

### The stability target and expenditure rule

**This report includes an individual assessment of the 16 city councils with a population of over 250,000 inhabitants and the 5 provincial councils or similar bodies with the highest non-financial budget.** It is legally obliged to analyse the main differences between the finally approved budgets and the main

aspects of their corresponding draft versions, which is why this individual scope of assessment has been maintained.

The analysis was conducted with the information supplied by each of the LCs. All of them complied with the duty to collaborate with AIR<sup>e</sup>F. All of them have approved the budget for 2017, except for Murcia City Council, which has carried over the 2016 budget.

**For the purposes of this assessment, it is important to bear in mind the possible existence of an EFP which might set different targets for a corporation than those generally established within the framework of the LOEPSF.** In the event of non-compliance with any of the fiscal rules, an EFP must be drawn by the plenary council of each corporation and, in the case of the 21 bodies under analysis, it must receive final approval from the body with financial supervisory capacity and it shall not enter into force until such time. In accordance with stability legislation, the finally approved EFP must facilitate compliance with the targets and expenditure rule during the year in course and the following one. Under Article 21 of the LOEPSF and in the guide published by MINHAFP in February 2016 on the makeup of the EFP, all the fiscal rules for which the said document is valid must be complied with during each of the years covered by the plan.

**Of the 21 LCs under analysis, 8 have an EFP approved by their financial supervisory body currently in effect for 2017, 3 are within the deadline for the approval of an EFP that establishes the limits for 2017, and 2 have exceeded the deadline for its approval.** Alicante, Barcelona, Bilbao, Malaga, Palma de Mallorca and Zaragoza City Councils and Barcelona and Valencia Provincial Councils have an EFP in effect in 2017. Las Palmas de Gran Canaria, Murcia and Valencia City Councils are still within the deadline for approving a respective EFP. Madrid and Seville, which failed to comply with the expenditure rule in 2015 and thus should have an approved EFP with undertakings for 2017, do not have one to date because their financial supervisory bodies (MINHAFP and Andalusia Regional Community respectively) have not approved it. In the case of Madrid City Council, under Article 25 of the LOEPSF, MINHAFP has demanded the adoption of agreements on the non-availability of credit by the council as a result of non-compliance with the expenditure rule in 2015 and 2016.

**None of the LCs under analysis showed a risk of non-compliance with the stability target in 2017, with the exception of Barcelona City Council and Valencia Provincial Council, although the compliance level might be lower than that recorded in previous years.** AIR<sup>e</sup>F's estimations of the range of the surplus/deficit that will be obtained by these bodies in 2017 were based on an econometric model whose methodology is shown in the report on the main aspects of the budget for this year, taking into account the commitments undertaken by each LC for 2017, whether the target to be met is the legal one or, if applicable,



the one set in the approved EFP currently in effect. According to these forecasts, all the LCs under analysis could comply with the stability target in 2017, although there is a risk of Barcelona City Council and Valencia Provincial Council failing to meet the targets set out in their respective EFPs. In the case of Las Palmas de Gran Canaria, Murcia and Valencia City Councils, since they are within the deadline for the approval of an EFP that sets the targets for 2017 and 2018 following non-compliance with the 2016 expenditure rule, their compliance by the end of this year could not be assessed, although they do not display any risk of failing to achieve the legal targets.

**Bilbao City Council expects to have a deficit of 30 million (7% of its non-financial revenue) in accordance with the EFP in effect.** This city council approved its budget for 2017 with a deficit of 30 million euros, mainly as a result of the increase in investment costs. This deficit complies with the timeframe envisaged in the EFP approved by Vizcaya Provincial Council in March 2017. Given that the EFP are approved within the framework of stability legislation, under no circumstances can they outstep the reference legislation, which requires budgets to be approved with a balance or surplus.

**With regard to the expenditure rule, of the 21 LCs under analysis, 9 displayed a risk of non-compliance in 2017.** Barcelona, Madrid, Palma de Mallorca, Córdoba, Valladolid and Gijón City Councils, Seville Provincial Council and Tenerife and Mallorca Island Councils display a risk of non-compliance with the expenditure rule by the end of 2017. In the case of Las Palmas de Gran Canaria, Murcia and Valencia City Councils, as mentioned above, compliance with this rule could not be assessed since they are still within the period for the approval of a corresponding EFP, although, from the current data, it is deemed likely that they will comply with the legal target. In the case of Barcelona City Council, which has an amended version of the initial EFP in force due to non-compliance with the expenditure rule in 2015, in which new undertakings for 2017 were approved, it shows a risk of non-compliance with these new commitments at the end of the year.

Table 3 below offers a comparative overview of the situation at the end of 2016 and AIR<sup>e</sup>F's forecasts for 2017 regarding the 21 CL's ability to comply with the stability target and expenditure rule.

Table 3. COMPARATIVE OVERVIEW OF COMPLIANCE WITH THE STABILITY TARGET AND EXPENDITURE RULE

LOCAL CORPORATIONS	APPROVED EFP IN EFFECT		Stability target (ST)		Expenditure rule (ER)	
	CAUSE OF EFP	CURRENT SITUATION	Close of 2016	Forecast 2017	Close of 2016	Forecast 2017
Madrid	Non-compliance ER15	EFPs 16-17 due to non-compliance ER15, approved by Plenary Council but not supervisory body (MINHAFP)	✓	✓	✗	✗
Barcelona	Non-compliance ER15	Approved EFP 15-16, revised due to forecast non-compliance 16. New EFP16-	✓	✗	✓	✗
Valencia	Non-compliance ER16	Within deadline for approval	✓	pending EFP	✗	pending EFP
Seville	Non-compliance ER15	EFP approved by Plenary Council but not supervisory body (Andalucia AR)	✗	✓	✓	✓
Zaragoza	Non-compliance ER15	Approved EFP 16-17	✓	✓	✓	✓
Málaga	Non-compliance ER15	Approved EFP 16-17	✓	✓	✓	✓
Murcia	Non-compliance ST & ER16	Within deadline for approval	✗	pending EFP	✗	pending EFP
Palma de Mallorca	Non-compliance ER15	Approved EFP 16-17	✓	✓	✓	✗
Las Palmas de Gran Canaria	Non-compliance ER16	Within deadline for approval	✓	pending EFP	✗	pending EFP
Bilbao	Forecast non-compliance ST17 in	Approved EFP 17-18	✓	✓	✓	✓
Alicante	Non-compliance ER15	Approved EFP 16-17	✓	✓	✓	✓
Córdoba		Debt refinancing plan 16	✓	✓	✓	✗
Valladolid			✓	✓	✓	✗
Vigo			✓	✓	✓	✓
Gijón			✓	✓	✓	✗
L'Hospitalet de Llobregat Barcelona Prov. Council	Non-compliance ST & ER 15	Approved EFP 16	✓	✓	✓	✓
Valencia Prov. Council	Non-compliance ER15	Approved EFP 16-17	✗	✗	✓	✓
Seville Prov. Council			✓	✓	✓	✗
Tenerife Island Council			✓	✓	✓	✗
Mallorca Island Council			✓	✓	✓	✗
✓			Compliance			
✗			Non-compliance			

Source: Data supplied by City Councils & MINHAFP and forecasts by AIReF

## Debt target

**Of the 21 LCs that were assessed, by the close for 2017, only Zaragoza City Council displays a risk of an outstanding debt/consolidated current revenue ratio of over 110%, with the result that it cannot engage in new long-term credit operations this year.** Table 4 shows the outstanding debt/current revenue ratio for 2016 and 2017 which determines the possibility of LEs being able to engage in new debt operations in 2017. Only Zaragoza City Council has a debt ratio of over 110%, a ratio on the rise since 2012, with an over 30-percentage-point increase in 2015 due to the loan allocated to the budget for investment in the city tramline that year. Murcia City Council is in a similar situation as a result of investment in the city tramline of over 173 million euros, which has led to an almost 50-percentage-point rise in its debt.

Only Madrid and Córdoba City Councils expect to close 2017 with outstanding debt ratios that will allow them to change their situation vis-a-vis the ability to engage in new debt operations, moving from the need, in 2016, for authorization from their supervisory body (with an outstanding debt/current revenue ratio of between 75 and 110%) to a more favourable scenario in which this authorization is not required (with an outstanding debt/current revenue ratio of less than 75%).

Table 4. OUTSTANDING DEBT RATIO 2016 & FORECAST FOR 2017  
% in relation to consolidated current revenue (CCR)

LOCAL CORPORATIONS	2016	2017
Zaragoza	136,0%	138,8%
Murcia	101,1%	91,7%
Valencia	88,1%	85,3%
Málaga	90,6%	81,0%
Madrid	76,0%	74,1%
Córdoba	81,1%	73,8%
Palma	71,4%	62,5%
Gijón	55,3%	53,9%
Seville	40,2%	40,4%
Hospitalet de Llobregat (L')	45,4%	40,0%
Valladolid	41,2%	39,8%
Valencia Provincial Council	36,8%	34,8%
Alicante	37,9%	33,1%
Tenerife Island Council	30,5%	30,9%
Mallorca Island Council	36,3%	30,0%
Barcelona	19,1%	27,6%
Seville Provincial Council	32,4%	23,0%
Barcelona Provincial Council	24,6%	21,9%
Las Palmas de Gran Canaria	21,1%	16,5%
Bilbao	0,1%	0,1%
Vigo	0,0%	0,0%

Source: Data supplied by the City Councils

## Recommendations

### A. General recommendations

- ***Application of the Organic Law on Budgeting Stability & Financial Sustainability (LOEPSF)***

The feasibility of the Public Administration as a whole complying with the stability target is dependent on the assumption that the Central Administration and Social Security's likely deviation from this target can be compensated for by the surplus achieved by the local subsector. Because the stability target in this subsector is not adapted to take into account LCs' financial situations and because the expenditure rule is not taken into consideration in the setting of this target, this distorts the distribution of the stability target among different levels of government. Although in Article 11 of the LOEPSF, it establishes that the LCs must achieve a balance or surplus, the yearly target that is set for this subsector is always a balance. In practice, this leads to local budgets where expenditure is overestimated, leading to a high instance of non-implementations at the close of the year. This distortion in the vertical distribution of fiscal targets means that the framework for fiscal discipline, established in the LOEPSF and individually applied to each public administration, shows certain inconsistencies when a joint assessment is made of all the public administrations.

As a result, **AIR<sup>e</sup>F recommends:**

1. ***That MINHAFP factors in expenditure requirements, revenue sufficiency and the expenditure rule in the distribution of the budget stability target among different levels of government, avoiding the inconsistencies that can be discerned between the individual application of the LOEPSF to each administration and the joint assessment of the Public Administration sector. In particular, the estimation of the local surplus must be taken into account when targets are set, without expecting the surplus to compensate for deviations by other subsectors at the close of the year.***

As AIR<sup>e</sup>F noted in its December 2016 report, at a local level there are situations of non-compliance with a fiscal rule without the LC being able to count on an approved valid EFP. The LOEPSF establishes the corrective and coercive measures to be applied in cases of the non-submission and/or lack of approval of an EFP, ranging from the need to adopt a non-availability agreement to the corporation's dissolution in the case of reiterated serious instances of non-

compliance. In this context, AIReF advised MINHAFP to foster the establishment of a legal procedure aimed at overcoming impasses in the processing of EFPs. In response to this recommendation, MINHAFP informed AIReF that it had already tried to arbitrate a procedure aimed at smoothing the way by adding a provision to the Local Government Regulatory Law (Ley de Bases de Régimen Local), according to which the Executive Board would approve the EFP if this were not done at a first round of votes by the Plenary Council. This provision was declared anti-constitutional and null and void by the Constitutional Court with effect as from July 15th 2016.

With regard to this issue, **AIReF reiterates the following recommendation:**

- 
- 2. That MINHAFP arbitrates a procedure in keeping with the Constitution aimed at overcoming impasses due to non-compliance with a fiscal rule in situations where there is no approved valid EPF, and that, until this procedure has been set in place, it applies and fosters the application of the corrective and coercive measures established in the LOEPSF for situations of non-compliance lacking in the coverage of an EFP.***
- 

In its December 2016 report, AIReF also advised MINHAFP to establish a common framework for the exercise of the scopes of authority of the LCs' different supervisory bodies in matters concerning the fiscal rules. This should clearly define their procedural criteria, and any held meetings and undertaken commitments should be publicized. In response to the recommendation, MINHAFP replied that this common framework has existed since 2014, with yearly meetings at which general criteria for coordination purposes and for the practical application of the LOEPSF are established. Notwithstanding this, AIReF considers that firm undertakings adopted at such meetings, as well as common criteria for the application of procedures and possible deviations from these criteria by any supervisory body must be published for general disclosure purposes so as to make sure that they are monitored. Likewise, AIReF advises MINHAFP to foster the inclusion in these commitments of any steps that must be taken in the event of a supervisory body's deviation from the adopted common criteria in the course of its duties.

For this reason, **AIReF recommends:**

- 
- 3. That MINHAFP publicizes the yearly meetings of the LCs' supervisory financial bodies and firm commitments undertaken at them and, if applicable, possible deviations from the commitments by any of these***

***bodies. Likewise, it must foster the inclusion in these commitments of the steps to be taken in the event of a deviation from the adopted common criteria by any financial supervisory body in the exercise of its duties.***

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In terms of transparency, AIReF has already advised MINHAFP to take steps to ensure the publication of all data required for the verification of LCs' compliance with the stability target and expenditure rule, rounded off with national accounting data for each local entity at an individual level. In response, MINHAFP replied that, with regard to the publication of individual data on the LEs, from 2017 the Global Economic Activity Index (IGEA) would publish individual national accounting data on the main LEs for the first time: that is, for Madrid, Barcelona, Valencia, Seville, Zaragoza, Malaga, Bilbao, Murcia, Ceuta and Melilla. This published data only refers to their net lending/net borrowing, without specifying the main components of this balance.

As for the publication of individual data on the expenditure rule, MINHAFP replied that since data for two consecutive years is need for its verification, provided that it has all the necessary information, in 2018 IGAE will publish the individual data for the above local entities.

**AIReF recommends:**

- 
- 4. *That MINHAFP takes the necessary steps to ensure the publication of all necessary data for the verification of compliance with the stability target and expenditure rule at an LC subsector and individual level and that it publicizes the main components involved in its calculation.***
- 

When some of the LCs under analysis with an approved valid EFP due to non-compliance with a fiscal rule have had to submit an Adjustment Plan in order to gain access to extraordinary financing mechanisms, AIReF has found that the compliance limits with these rules can differ in the two documents. These documents are approved by different bodies - MINHAFP in the first case and the financial supervisory body in the second (in the case of 10 regional communities, it is the respective regional community) – and with different timeframes (the duration of the funding in the first case and a maximum of two financial years in the second). However, since the corporation's economic and financial activity is one and the same, the agreed limits should be the same in coinciding years. As a result, when a LC that already has an Adjustment Plan needs to approve an EFP due to non-compliance with a fiscal rule, the body that approved the Adjustment Plan must update it to bring both plans into line. Likewise, the coherence of the EFP must be ensured.

Consequently, **AIReF recommends:**

- 
- 5. That MINHAFP and/or the respective financial supervisory body takes the necessary steps to ensure the coherence of the compliance limits of the fiscal rules established in adjustment plans and EFPs when they are both in effect in the same years.**
- 

- **Expenditure rule**

On November 30<sup>th</sup> 2016 at a meeting of the National Local Administration Committee (Comisión Nacional de Administración Local), the Secretary of State for Budgets and Expenditure announced that a commitment had been made to create a working group made up of representatives of MINHAFP, the regional communities, LEs and AIReF to revise this rule. Given the time that has passed since this commitment was made, MINHAFP is asked to create this working group, in which AIReF will be represented. Likewise, until the revised version of the fiscal rule comes into effect, it asks MINHAFP to make the criteria for the rule's application known in order to facilitate its calculation.

For this purpose, **AIReF recommends:**

- 
- 6. That MINHAFP creates the working group for the revision of the expenditure rule, where the necessary methodology for the planning, monitoring and assessment of compliance with the rule are clearly defined, and that, until the revised version comes into effect, it makes the conditions and criteria for its calculation and application known.**
- 

As highlighted in previous reports, unlike the budget stability and government debt targets, the information that the local entities must forward to MINHAFP on the main aspects of the budgets and budgets themselves does not include an assessment of the expenditure rule. This is the case following the amendment, in 2014, of Order HAP/2105/2012, which develops the reporting obligations established in the LOEPSF, even though the said law does not exclude compliance with the rule in these phases of the budgetary cycle. In answer to this recommendation, MINHAFP replied that IGAE publishes all national accounting data relating to the LCs required under EU and national legislation on an annual and quarterly basis.

In this context, AIReF repeats its recommendation, since under no circumstances can a Ministerial Order go further than what is established in the LOEPSF, and the latter does not exclude the calculation of this rule in initial phases of the budgetary cycle. For this reason, AIReF asked for amendments to be made so that the calculation of the expenditure rule can be included in the data that the LCs provide on the main aspects of the budget and approved budget.



In this respect, **AIReF reiterates the recommendation that it made:**

- 
- 7. That, making all necessary amendments, MINHAFP should include the calculation of the expenditure rule in the information that the LCs provide on the main aspects of the budget and approved budget, together with an analysis of the coherence of this rule with the balance or surplus scenario that can be inferred from the planned revenues and expenditures, assessed in national accounting terms.***
- 

Lastly, as AIReF already indicated in its previous report regarding the application of preventive and corrective measures by the LCs, equal treatment is not given to the expenditure rule in the LOEPSF when compared with the other two targets. In response to this recommendation, MINHAFP argued that any regulatory initiative aimed at improving the system of preventive and corrective measures for situations of non-compliance with the expenditure rule must take into account the place in the legal hierarchy in which the current system fits, with the expenditure rule not being mentioned in the text of the Constitution.

AIReF reiterates the above recommendation since if, in order to guarantee the Public Administrations' long-term sustainability, as established in the Constitution, the LOEPSF regulates the need for compliance with the 3 fiscal rules, then these must each be able to count on comparable preventive and corrective measures to guarantee compliance with them.

With a view to the above, **AIReF reiterates the recommendation:**

- 
- 8. That, to guarantee the LCs' long term sustainability, MINHAFP should promote the necessary legal amendments to make sure that equal treatment is given to the three fiscal rules' preventive and corrective measures, above all by bringing the measures for the expenditure rule into line with those of the other targets.***
- 

- **Debt**

As noted in the report on the main aspects of the LCs' 2017 budgets, the LOEPSF establishes a government debt limit based on the GDP for the whole LC subsector, but it does not clarify the individual limit to be applied to each local corporation, and so neither does it establish the preventive, corrective and coercive measures to be applied in the event of certain individual behaviour concerning the debt, although

the said law does not exempt any public administration from compliance with any of the fiscal rules.

In response to the recommendation that was made, MINHAFP pointed out the existence of a series of methodological limitations to the determination of individual debt limits at a local level, due to difficulties in ascertaining the GDP of each local corporation, although in the disclosure of the targets presented to the National Local Administration Committee (CNAL) and made known to AIReF, it is expressly stated that the debt limits applicable to each of the LEs is contained in the amended version of the Law Regulating Local Tax Agencies, taking into account what is established in the 2013 Law on the General State Budget concerning long-term credit operations to finance investments, limits which are compatible with the subsector's global target.

AIReF repeats its recommendation, since the disclosure of this information to the CNAL cannot replace its necessary legal consideration, and the lack of a local GDP does not hinder the legal establishment of an individual target whose non-compliance activates the mechanisms in Chapter IV of the LOEPSF. Thus, for instance, the deposit to be placed with the Banco de España by LCs, referred to in Article 25 of the LOEPSF, in the event of failure to submit or approve an EFP or failure to comply with one is set at 2.8% of the non-financial revenue under the 6th Final Provision of the same law

As a result, **AIReF reiterates the following recommendation:**

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***9. That MINHAFP should promote the development of the necessary legislation to define the debt limit that would be applied at an individual local level, whose non-compliance would give rise to the application of the measures contemplated in the LOEPSF.***

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## B. Individual assessments

As contained in the appendix “Results of individual assessments”, AIR<sup>e</sup>F recommends:

- 
10. *That, since they have failed to comply with the 2015 expenditure rule and do not currently have an approved EFP in force, Madrid and Seville City Councils must take the necessary steps contemplated in Article 25 of the LOEPSF until they have a finally approved EPF.*
  11. *That Valencia Provincial Council, which has an approved EFP in force whose commitments it failed to meet by a narrow margin in 2016 and which it does not expect to comply with in 2017, should adopt the measures contemplated in the LOEPSF.*
  12. *That Barcelona, Palma de Mallorca, Córdoba, Valladolid and Gijón City Councils, Seville Provincial Council and Tenerife and Mallorca Island Councils, which are expected to fail to comply with one of the fiscal rules by the close of 2017, should take the necessary steps to guarantee compliance with the corresponding rule by the end of the year.*
  13. *That L’Hospitalet de Llobregat, Malaga, Vigo and Zaragoza City Councils, where a certain risk of non-compliance with the expenditure rule in 2017 has been identified, albeit by a narrow margin, should monitor the execution process so as to guarantee this compliance by the close of the year.*
  14. *That Bilbao City Council should take steps during the budget execution process to guarantee compliance with the stability target, at least ensuring a balance by the end of the financial year, in accordance with what is established in the applicable legislation.*
  15. *That Catalonia Regional Community and Vizcaya Provincial Council should take the necessary steps to bring the EFPs approved for Bilbao and Barcelona City Council in line with current legislation, without their supervisory duties exceeding the scope of authority established in the reference legislation.*
-

# Appendix: Results of Individual Assessments

**For each of the 21 individually analysed LEs, this appendix features a fact sheet that summarizes the salient results of the assessment by AIReF.** Each sheet comprises two graphs whose contents are described below, together with a brief description of the main conclusions of the assessment (the situation at the close of 2016, AIReF's forecast with regard to compliance with the fiscal rules by the close of 2017, and the main differences between the approved or carried-over budgets for 2017 and the main aspects of the draft versions):

**Figure 1:** This shows the observed net borrowing/net lending for each LC since 2012 (the first year that the new budget stability legislation was applied), AIReF's estimated range for the close of 2017, and the corporation's own estimation of the surplus/deficit at the end of the said year.

**Figure 2:** This shows the observed scenario of compliance or non-compliance with each of the 3 fiscal rules by each of the LCS (the stability target, expenditure rule and debt limit) since 2013 (the first year when the expenditure rule was applied) through to 2016 (the last closed year), together with the corporation's forecasted compliance or non-compliance with the said rules by the end of 2017 (or AIReF's assessment when indicated). This situation of compliance or non-compliance with the stability target and expenditure rule are presented in percentage terms as the amount that they overshoot or undershoot the target (the legal target or one established in the EFP approved and in force at the respective corporation). As for the debt limit, this is shown in percentage terms as the amount by which they overshoot or undershoot the target. In this case, the target is an outstanding debt/consolidated current revenue ratio of no more than 75%: the amount by which LCs are allowed to fall into debt in the long term without requiring authorization from their financial supervisory body. This means that if their level of debt is below this threshold, there is no risk to the sustainability of their situation.

## Madrid City Council

FIGURE 1 | NET BORROWING/NET LENDING (%INF).

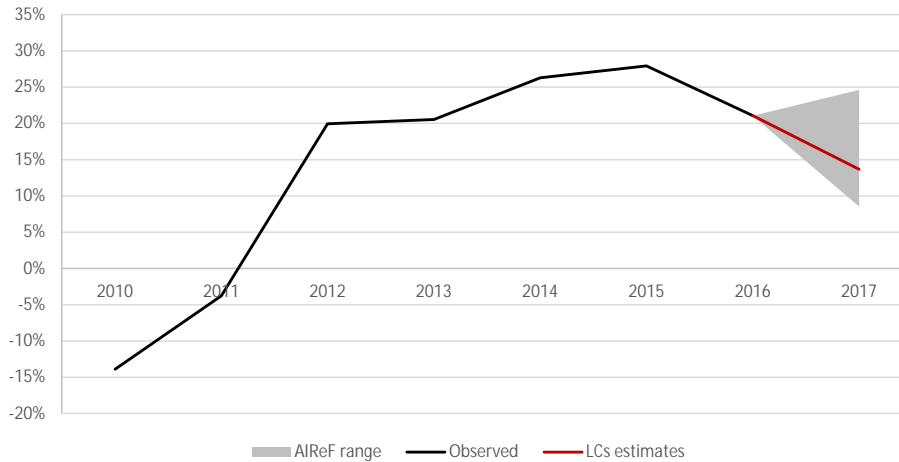
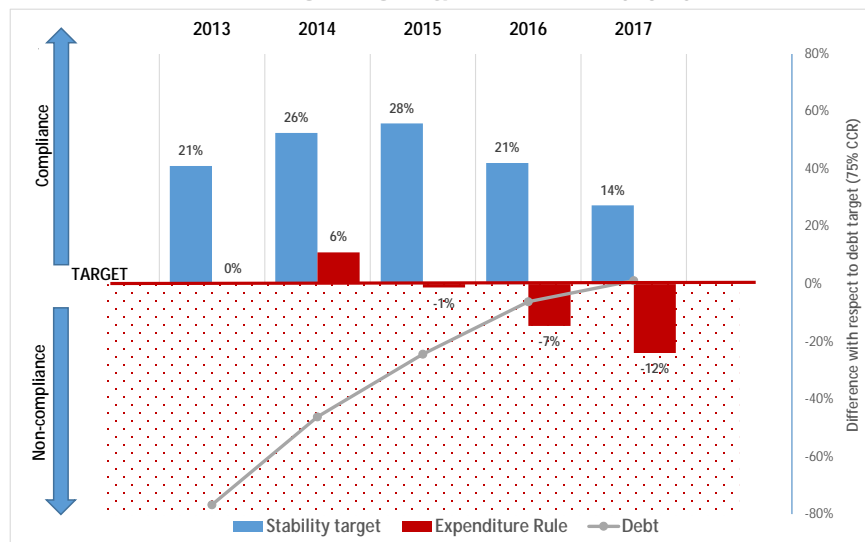


FIGURE 2. SITUATION/FORECAST REGARDING COMPLIANCE WITH STABILITY TARGET, EXPENDITURE RULE & DEBT LIMIT 2013-2017



### Salient results of assessment

- Due non-compliance with the expenditure rule by 17 M € in 2015, this city council approved an Economic & Financial Plan (EFP) at a plenary session for 2016 and 2017 which did not receive final approval by MINHAFP, its supervisory body. This EFP contemplated an increase in expenditure of 17% and 11% respectively for these years, which is more than the permitted increase established by the reference rate for compliance with the said rule. Likewise, in 2016, Barcelona City Council failed to comply with the expenditure rule, which is why it has submitted a new EFP to MINHAFP for approval. At present, it does not have an approved validated EFP and so, in accordance with the LOEPSF, it must adopt the measures contemplated in Article 25 of this law.
- This corporation expects to meet the stability target and to fail to comply with the expenditure rule in 2017 and so, in its execution of the budget, it must take the necessary steps to ensure compliance with all the fiscal rules by the end of the financial year.
- In comparison with the submitted forecasts for the report on the main aspects of the budget for 2017, the data relating to the approved budget shows a significant increase in non-financial expenditure, which implies a drop of 80 M € in the initially envisaged surplus.

## Barcelona City Council

FIGURE 1. NET BORROWING/NET LENDING (%INF).

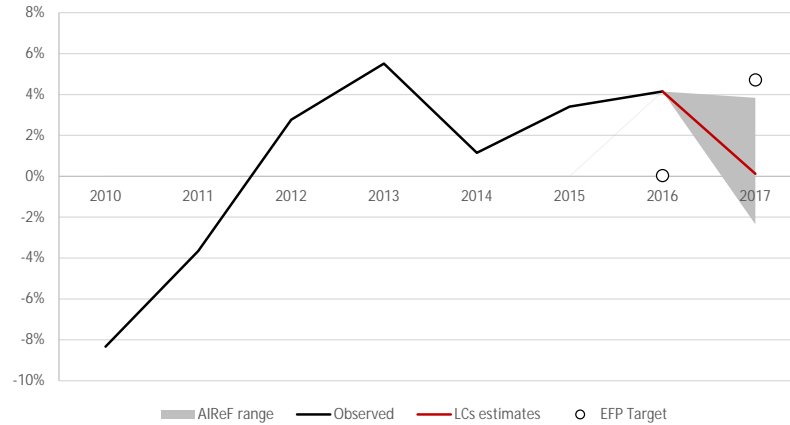
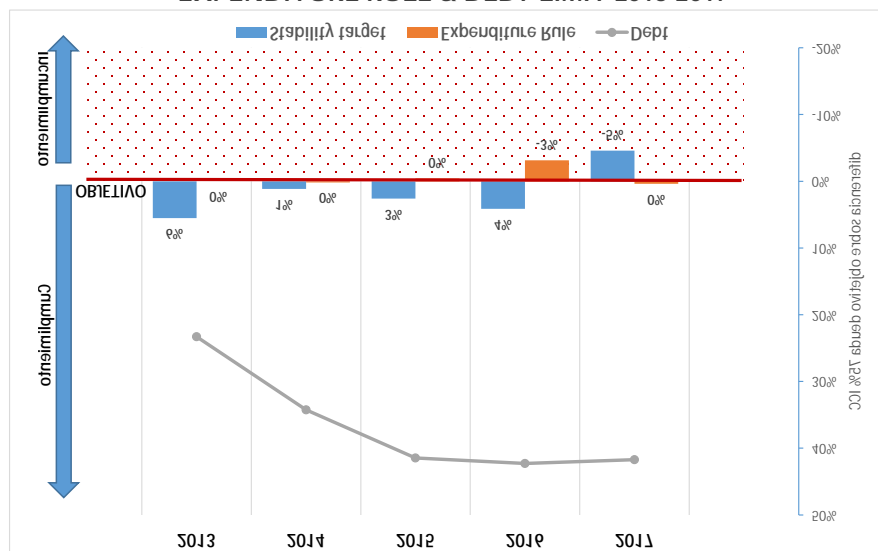


FIGURE 2. SITUATION/FORECAST REGARDING COMPLIANCE WITH STABILITY TARGET, EXPENDITURE RULE & DEBT LIMIT 2013-2017



### Salient results of assessment

- Because possible non-compliance with the expenditure rule in 2015 was detected in the third quarter of the said year, this city council approved an Economic & Financial Plan (EFP) for 2015 and 2016, in which it undertook to achieve a surplus of 105 M € in 2016. This limit was revised down that year, motivated by the approval of a credit amendment.
- In accordance with the new limits approved in the amended version of the EFP for 2016 and 2017, the city council will fail to comply with the stability target and expenditure rule by the end of this year, although in the submitted data, it pointed out the possible effect of the public administration's absorption of certain dependent bodies following the approval of the EFP now in effect. As a result, the regional financial supervisory body in charge of approving and monitoring the EFP must assess the effect of this occurrence on the compliance process and, in the execution of the budget, the city council must take the necessary steps to guarantee compliance with all the fiscal rules by the close of the year.
- From an analysis of differences between the city council's forecasts in its report on the main aspects of the budget for 2017 and the actual initial budget for the year, it can be seen that, due to an increase in non-financial expenditure and revenue, a drop of some 15 million euros is expected in the initially envisaged surplus.

## Valencia City Council

FIGURE 1. NET BORROWING/NET LENDING (%INF).

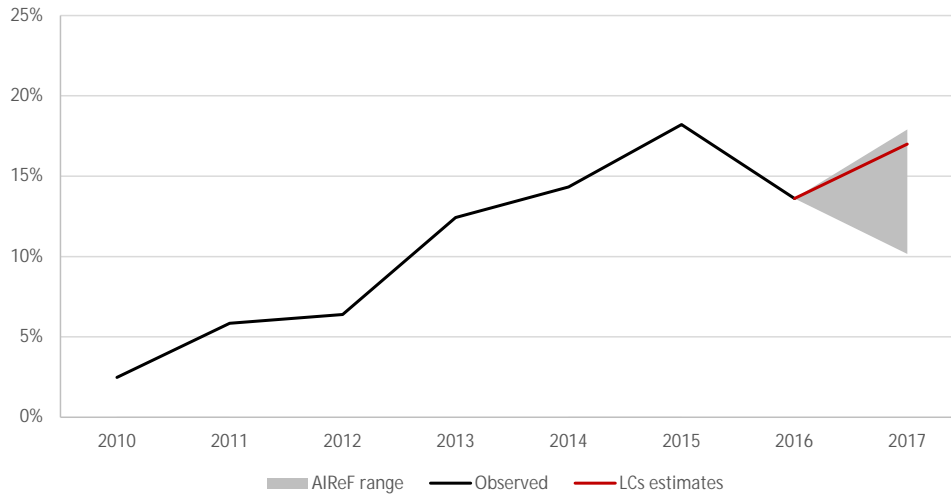
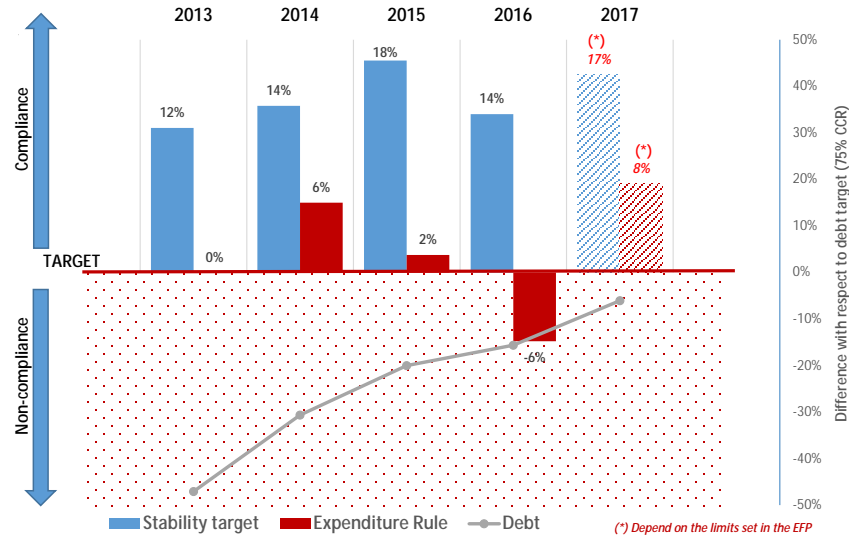


FIGURE 2. SITUATION/FORECAST REGARDING COMPLIANCE WITH STABILITY TARGET, EXPENDITURE RULE & DEBT LIMIT 2013-2017



### Salient results of assessment

- Valencia City Council failed to comply with the expenditure rule in 2016 according to the submitted data and so it must approve an Economic & Financial Plan (EFP) within a maximum of two years to redress this situation.
- Compliance with the stability target and expenditure rule in 2017 could not be assessed, since it will depend on the limits set for these rules in the approved EFP, although from the currently available data, it would comply with both fiscal rules.
- An analysis of differences between the city council's forecasts in the report on the main aspects of the budget for 2017 and the actual initial budget for the year reveals that, due to a drop in non-financial revenue, the envisaged surplus by the end of the year will fall by some 20 M €.



## Seville City Council

FIGURE 1. NET BORROWING/NET LENDING (%INF).

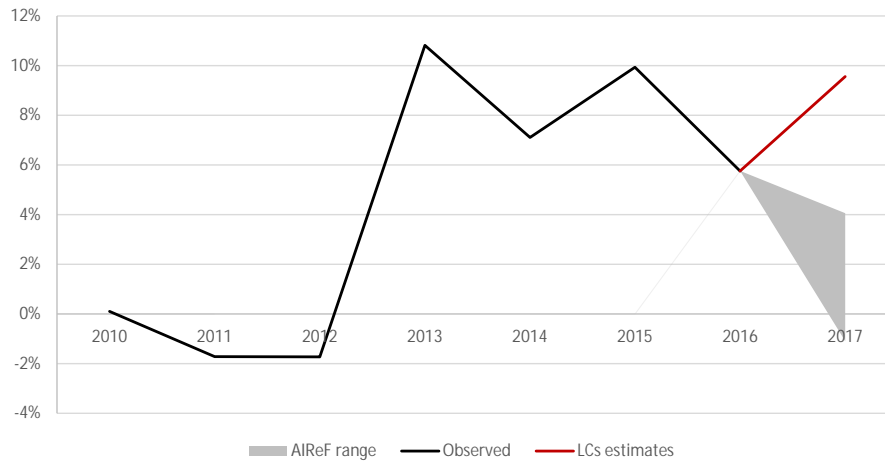
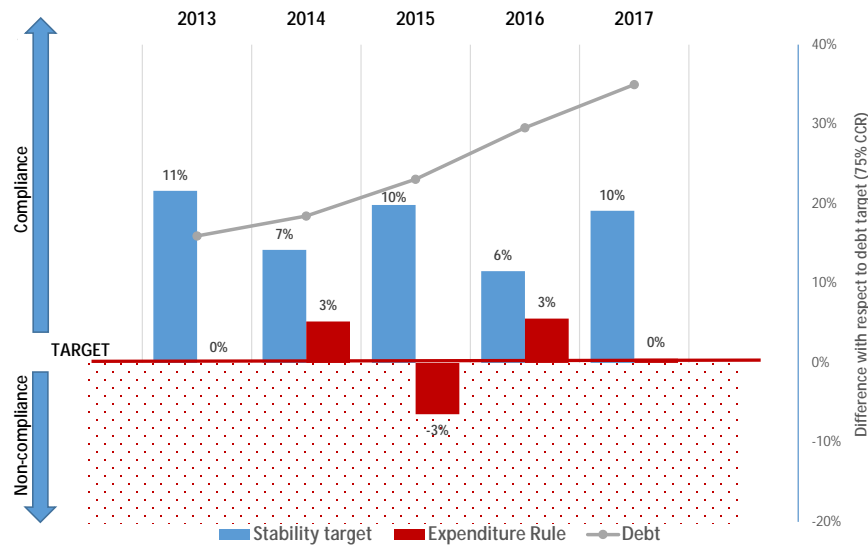


FIGURE 2. SITUATION/FORECAST REGARDING COMPLIANCE WITH STABILITY TARGET, EXPENDITURE RULE & DEBT LIMIT 2013-2017



### Salient results of assessment

- Due to non-compliance with the expenditure rule in 2015, this city council drew up an EFP which set the targets for 2016 and 2017, approved at a plenary session but not by its supervisory body, according to the corporation, and so it does not currently have an approved valid EFP. Under the provisions of the LOEPSF, it must adopt the measures contemplated in Article 25 therein.
- Given the absence of specific targets established in a finally approved EFP, the city council expects to comply with the legal limits set for the 2017 stability target and expenditure rule. However, AIREF believes there to be a certain risk of non-compliance with both rules in 2017, since the approved budget includes non-implementations of 84 M € which might partially not be realized. As a result, the city council must monitor the execution process and, if necessary, take the appropriate steps to ensure compliance with both fiscal rules by the end of the year.
- As for differences between the forecasts contained in the report on the main aspects of the budget for 2017 and the actual initial budget, the increase in non-financial expenditure and revenue has led to a reduction of some 50 M € in the initially envisaged surplus

## Zaragoza City Council

FIGURE 1. NET BORROWING/NET LENDING (%INF).

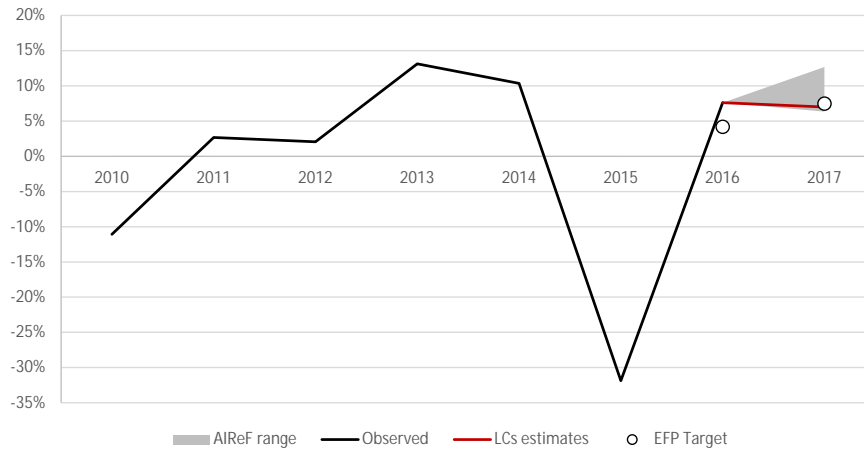
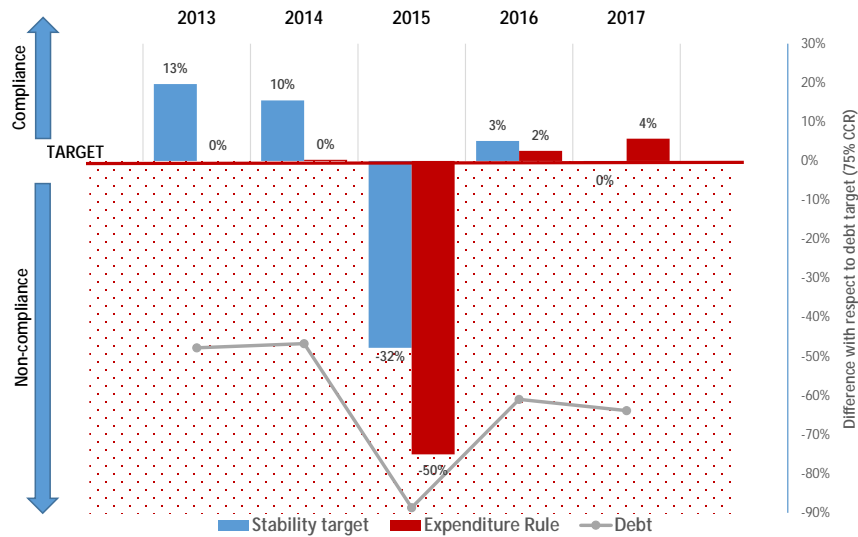


FIGURE 2. SITUATION/FORECAST REGARDING COMPLIANCE WITH STABILITY TARGET, EXPENDITURE RULE & DEBT LIMIT 2013-2017



### Salient results of assessment

- Due to non-compliance with the stability target and expenditure rule in 2015, mainly due to investment into the city tramline (of 256 M €) being allocated to that financial year, this city council has an approved EFP with specific undertakings regarding compliance with the fiscal rules for 2016 and 2017.
- The city council has given notice of a possible non-compliance, by a narrow margin, with the stability target set in its EFP in 2017. AIReF deems it feasible for the council to comply with both fiscal rules this year in accordance with the limits set in its EFP, although there could be a certain risk in the case of the stability target, and so the execution process must be monitored to ensure compliance with both fiscal rules by the end of the year.
- As for detected differences between the forecasts made in this corporation's report on the main aspects of its budget for 2017 and the actual initial budget, the increase in its non-financial expenditure and revenue has led to a 4 M € drop in the initially approved surplus.

## Malaga City Council

FIGURE 1. NET BORROWING/NET LENDING (%INF).

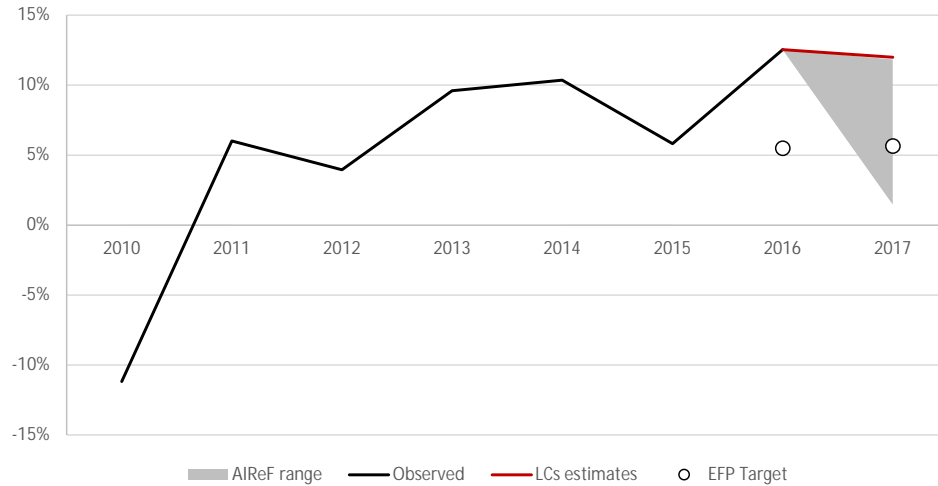
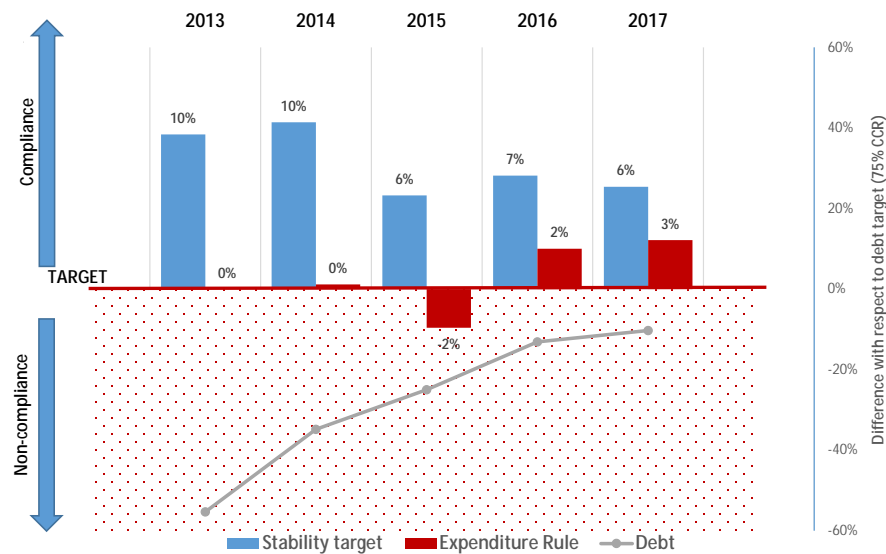


FIGURE 2. SITUATION/FORECAST REGARDING COMPLIANCE WITH STABILITY TARGET, EXPENDITURE RULE & DEBT LIMIT 2013-2017



### Salient results of assessment

- Due to non-compliance with the expenditure rule in 2015, this city council has a valid approved Economic & Financial Plan (EFP) which sets the compliance targets for 2016 and 2017.
- The city council expects to comply with the stability target and expenditure rule in 2017. However, AIREF deems there to be a certain risk of non-compliance with both rules in 2017, since the approved budget envisages non-implementations of possibly over-estimated expenditure at the close of the year, and so the execution process should be monitored to ensure compliance with both fiscal rules.
- The corporation has increased the surplus that it expects to achieve at the end of the year by 70 M € in relation to the information disclosed in the report on the main aspects of the budget for 2017, mainly due to an increase in its envisaged national accounting adjustments.

## Murcia City Council

FIGURE 1. NET BORROWING/NET LENDING (%INF).

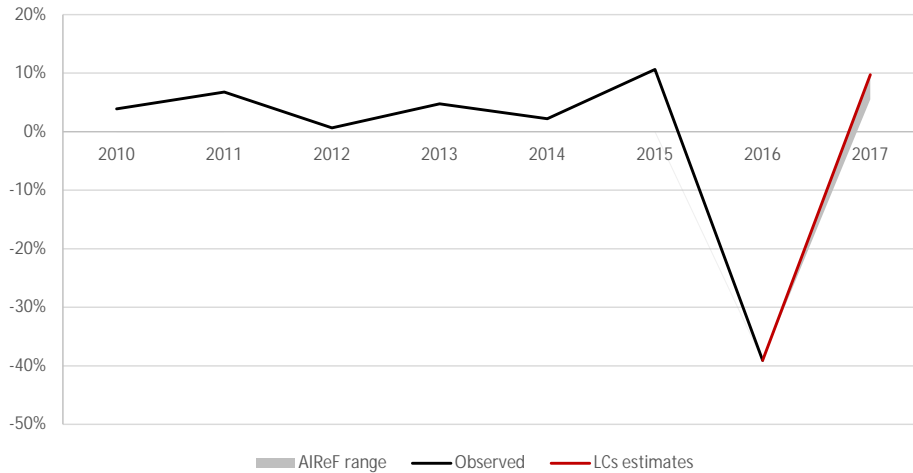
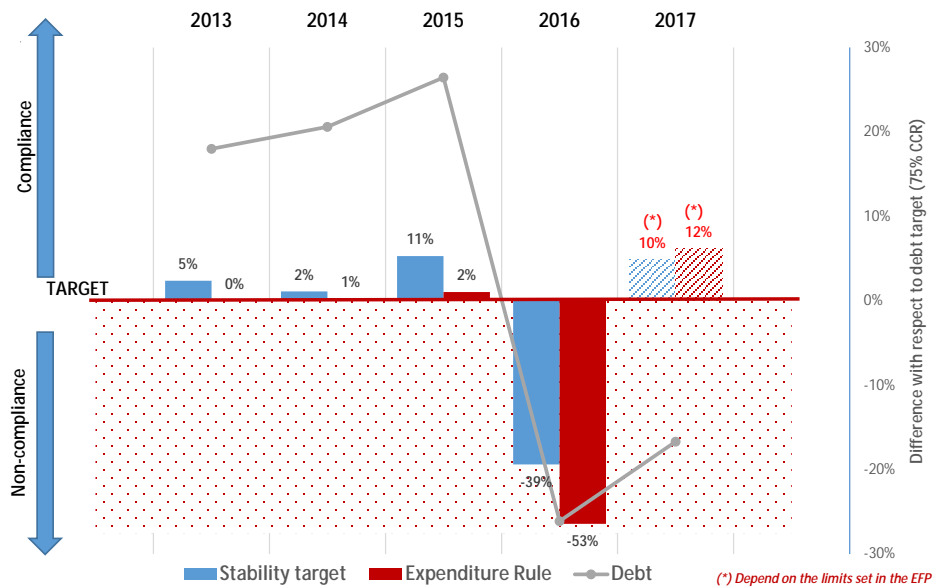


FIGURE 2. SITUATION/FORECAST REGARDING COMPLIANCE WITH STABILITY TARGET, EXPENDITURE RULE & DEBT LIMIT 2013-2017



### Salient results of assessment

- Due to non-compliance with the stability target and expenditure rule in 2016, mainly motivated by a one-off investment into the city tramline (173M €), this city council has to approve an Economic & Financial Plan (EFP) to redress the situation. This investment operation has led to a 50-percentage-point increase in its debt ratio, equivalent to 101% of its consolidated current revenue.
- Compliance with the stability target and expenditure rule in 2017 will depend on the limits set in the EFP which has to be approved, although from the current available data, it will comply with both fiscal rules by the end of the year.
- This corporation does not have an approved budget for 2017, and so the submitted data relates to the budget carried over from 2016. As for detected differences between the information regarding the main aspects of the budget for 2017 and the budget to be executed, due to a decrease in non-financial expenditure, the envisaged surplus has risen by some 35 M €.

## Palma de Mallorca City Council

FIGURE 1. NET BORROWING/NET LENDING (%INF).

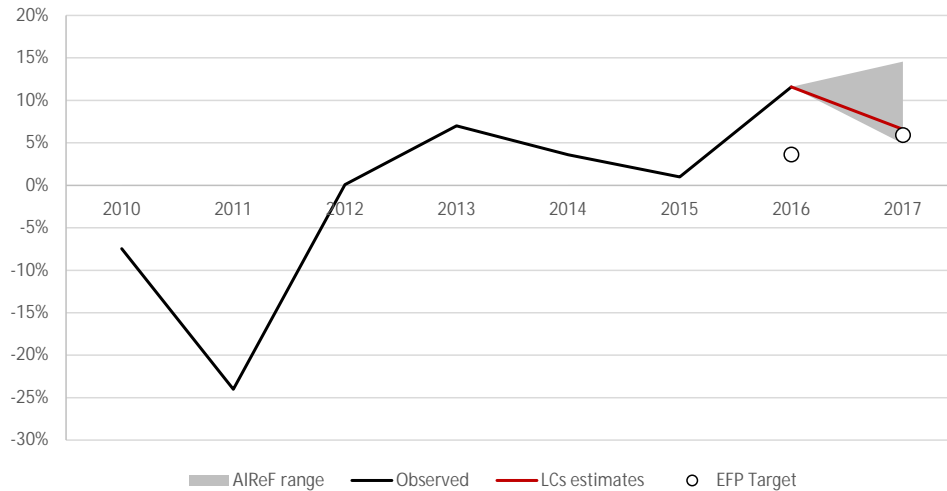
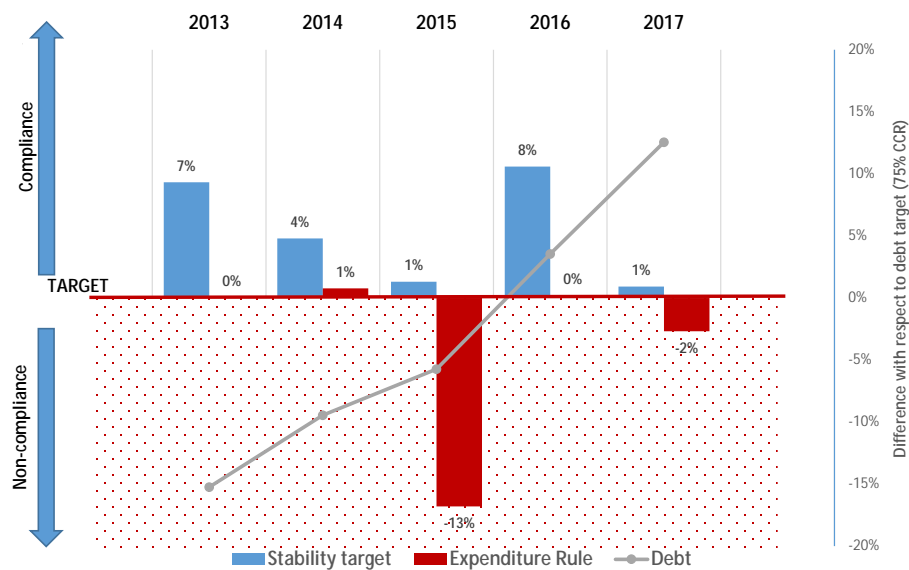


FIGURE 2. SITUATION/FORECAST REGARDING COMPLIANCE WITH STABILITY TARGET, EXPENDITURE RULE & DEBT LIMIT 2013-2017



### Salient results of assessment

- Due to non-compliance with the expenditure rule in 2015, Palma de Mallorca City Council has an approved Economic & Financial Plan (EFP) that sets the stability targets for 2016 and 2017.
- This corporation expects to comply with the stability target set in the EFP and to fail to comply with the expenditure rule in 2017, albeit by a narrow margin, and so during the execution of the budget, it must take the necessary steps to ensure compliance with all the fiscal rules by the end of the financial year.
- As for detected differences in the initial forecasts contained in the report on the main aspects of the budget for 2017 and the actual initial budget, due to a decrease in non-financial expenditure and increase in non-financial revenue, the initially envisaged surplus has risen by 3 M €.

## Las Palmas de Gran Canaria City Council

FIGURE 1. NET BORROWING/NET LENDING (%INF).

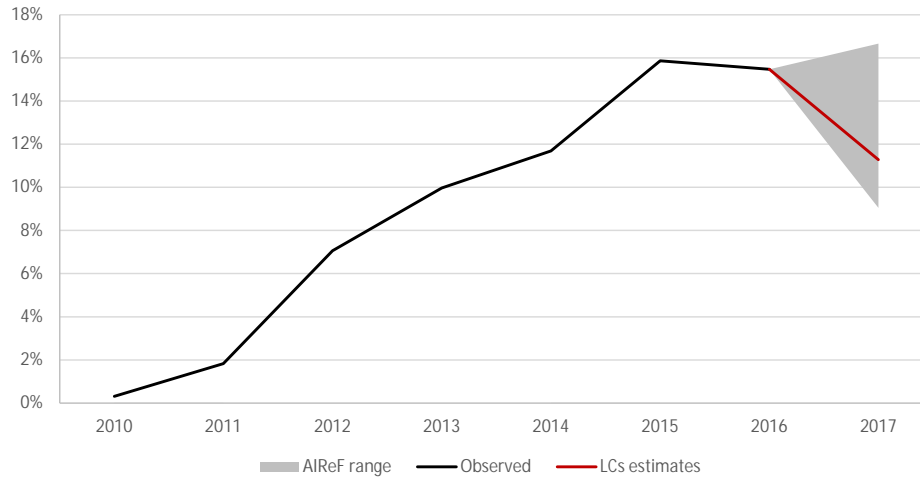
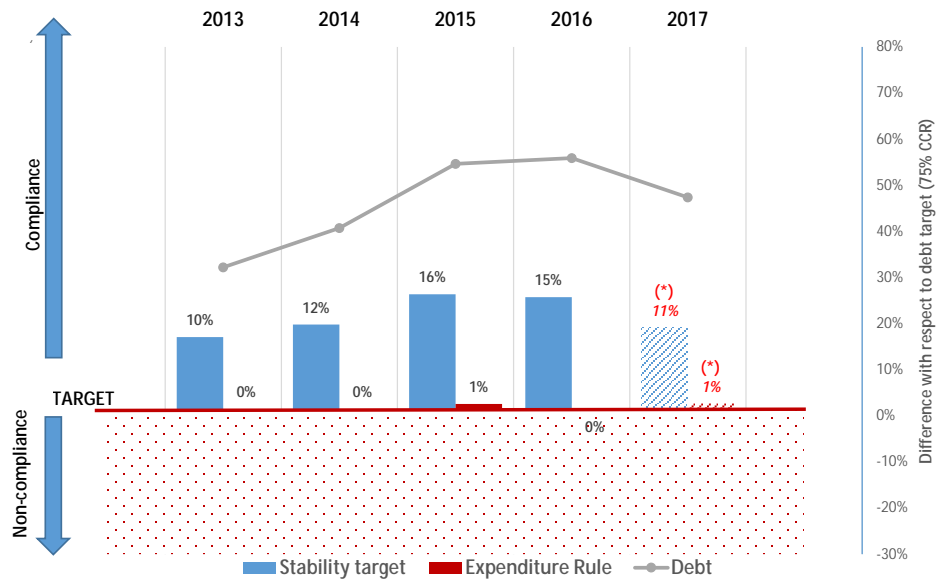


FIGURE 2. SITUATION/FORECAST REGARDING COMPLIANCE WITH STABILITY TARGET, EXPENDITURE RULE & DEBT LIMIT 2013-2017



### Salient results of assessment

- This city council gave notice of non-compliance with the expenditure rule in 2016, albeit by a narrow margin, and so it has to approve an Economic & Financial Plan (EFP) to try and redress the situation.
- Compliance with the stability target and expenditure rule in 2017 will depend on the limits set in the EFP that is approved, although from the available data, it would comply with both fiscal rules by the end of the financial year.
- As for detected differences between the forecasts in the report on the main aspects of the budget for 2017 and the actual initial budget, due to fewer expected national accounting adjustments, the initially estimated surplus has fallen by 6 M €.

## Bilbao City Council

FIGURE 1. NET BORROWING/NET LENDING (%INF).

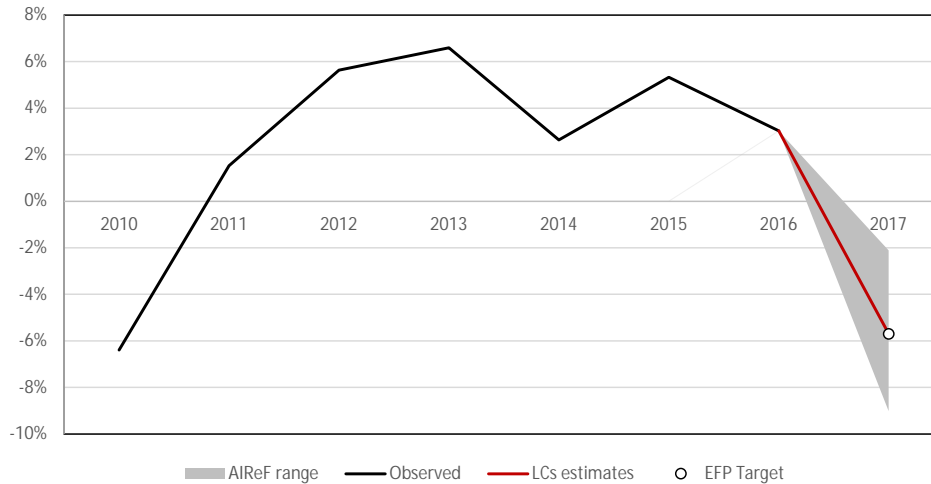
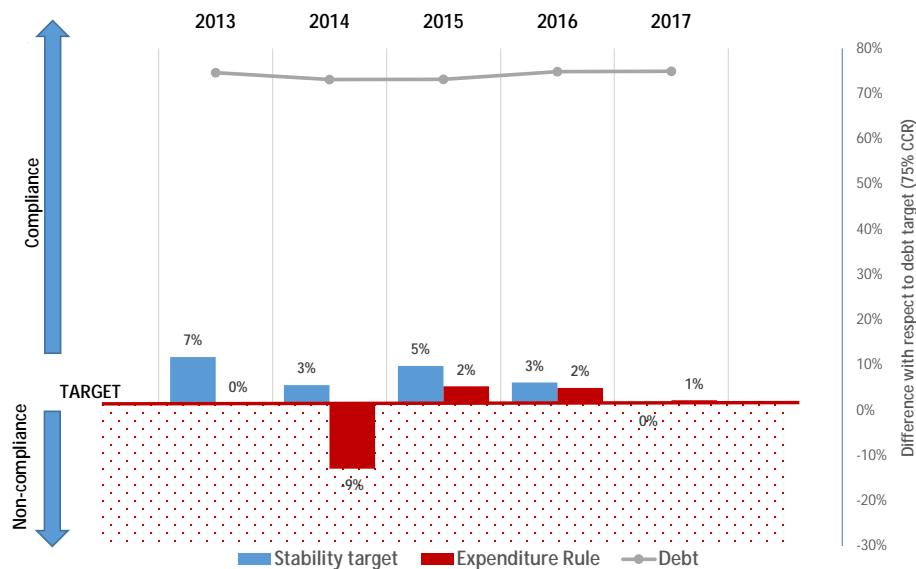


FIGURE 2. SITUATION/FORECAST REGARDING COMPLIANCE WITH STABILITY TARGET, EXPENDITURE RULE & DEBT LIMIT 2013-2017



### Salient results of assessment

- Due to envisaged non-compliance with the stability target in 2017 already reflected in the report on the main aspects of its draft budget, this city council has an Economic & Financial Plan (EFP) for 2017 and 2018 approved by its supervisory body, Vizcaya Provincial Council. This plan was given final approval in March this year, covering the budget in effect since the beginning of the financial year. The EFP allows the council to close this year with a deficit and the approved budget coincides with the deficit target set in the EFP.
- However, current legislation does not allow for the approval of LC budgets that end in a deficit, and so the city council must monitor the budget's execution and, if applicable, take the necessary steps to ensure compliance with both fiscal rules by the end of the financial year.
- As for detected differences between the forecasts contained in the report on the main aspects of the 2017 budget and this corporation's initial budget, due to an increase in non-financial revenue and decrease in non-financial expenditure, the envisaged deficit has been reduced by 11 M.

## Alicante City Council

FIGURE 1. NET BORROWING/NET LENDING (%INF).

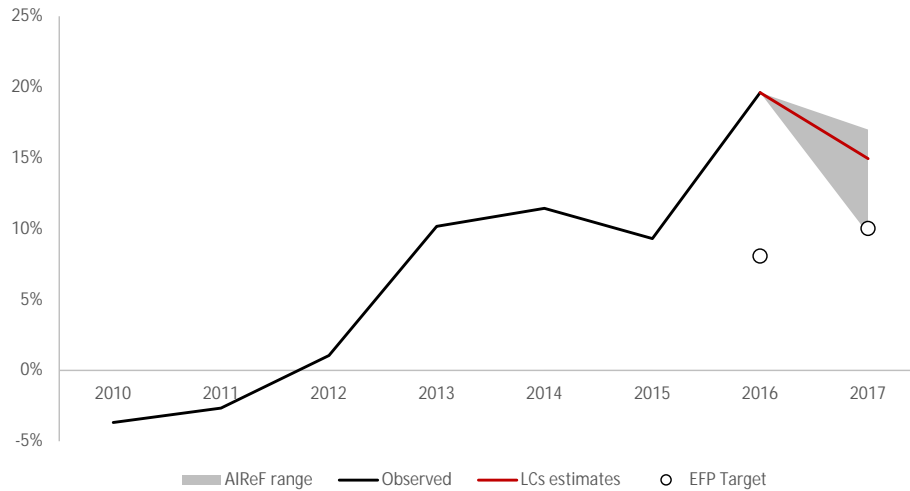
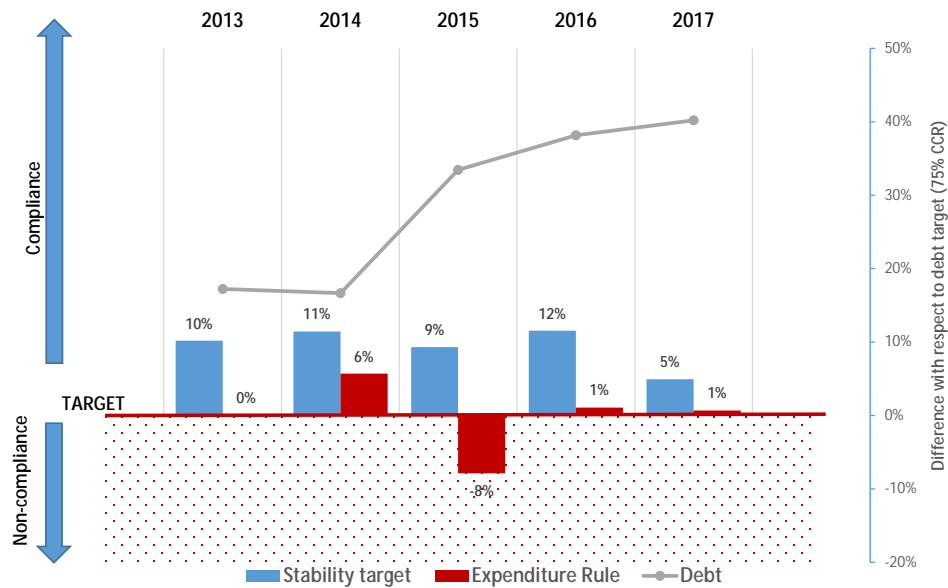


FIGURE 2. SITUATION/FORECAST COMPLIANCE WITH STABILITY TARGET. EXPENDITURE RULE & DEBT LIMIT 2013-2017



### Salient results of assessment

- Due to non-compliance with the expenditure rule in 2015, the city council has a valid approved Economic & Financial Plan (EFP) which sets the stability target and expenditure rule for 2016 and 2017.
- This corporation expects to comply with the targets for both fiscal rules set in its EFP. However, AIREF believes there to be a small risk of non-compliance with the expenditure rule in 2017, since the approved budget contemplates what might be over-estimated non-implementations.
- As for detected differences between the forecasts contained in the report on the main aspects of the budget for 2017 and this corporation's initial budget, due to an increase in the envisaged national accounting adjustments, there has been a rise of 5 M € in the initially forecast surplus.



## Córdoba City Council

FIGURE 1. NET BORROWING/NET LENDING (%INF).

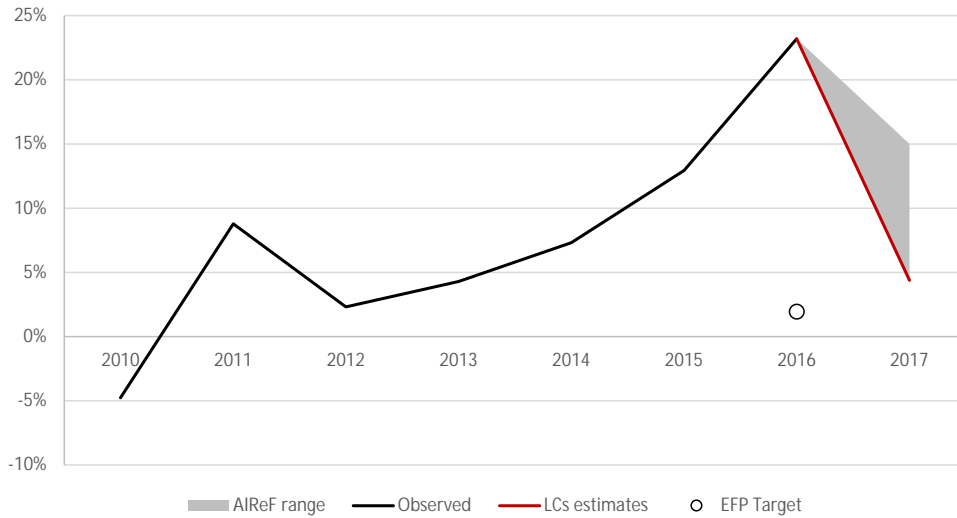
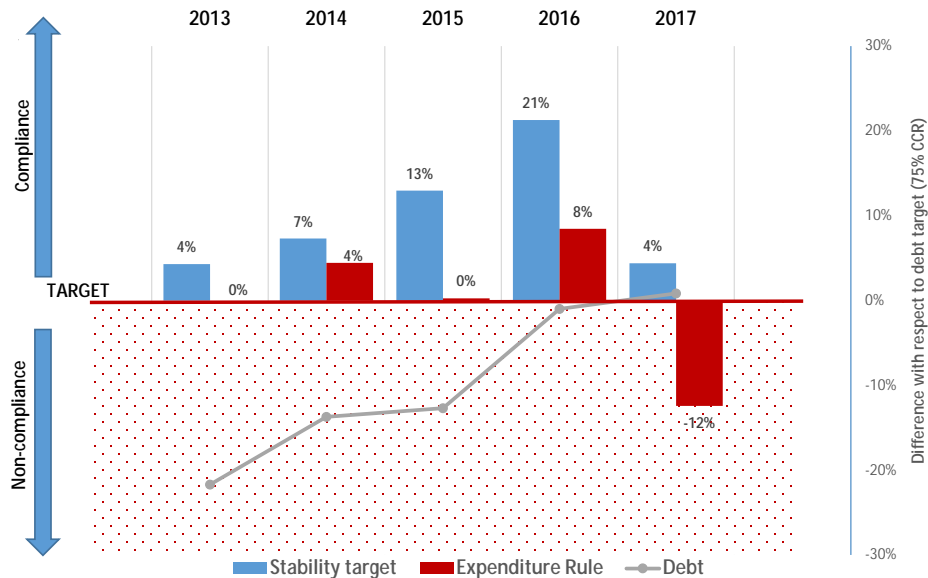


FIGURE 2. SITUATION/FORECAST REGARDING COMPLIANCE WITH STABILITY TARGET, EXPENDITURE RULE & DEBT LIMIT 2013-2017



### Salient results of assessment

- The city council has an approved debt refinancing plan with a commitment to achieve a surplus in 2016 which it met.
- This corporation expects to comply with the stability target and to fail to comply with the expenditure rule in 2017 and so, in the execution process, it must take the necessary steps to ensure compliance with both fiscal rules by the end of the financial year.
- As for detected differences between the forecasts contained in the report on the main aspects of the budget for 2017 and the actual initial budget, due to a decrease in the envisaged national accounting adjustments, there has been a drop of 2 M € in the initially envisaged surplus.

## Valladolid City Council

FIGURE 1. NET BORROWING/NET LENDING (%INF).

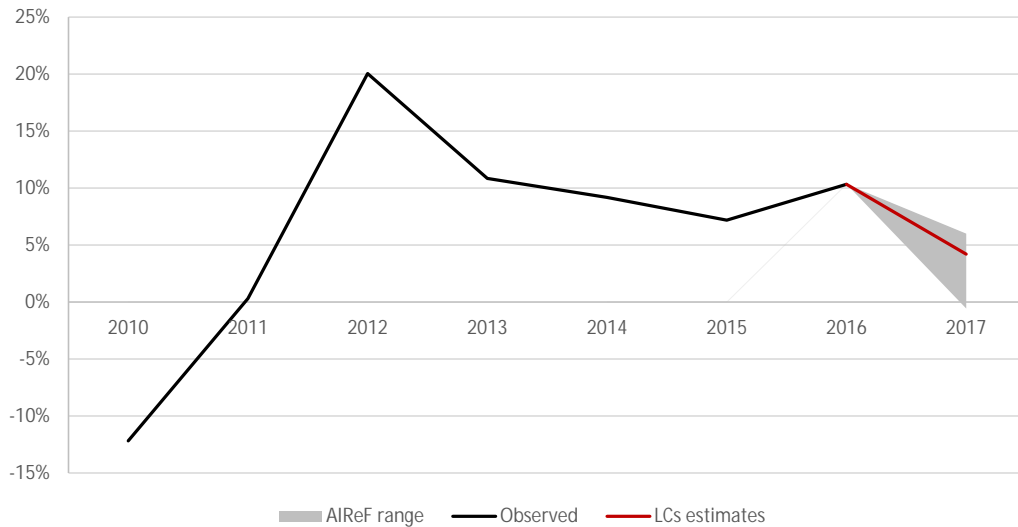
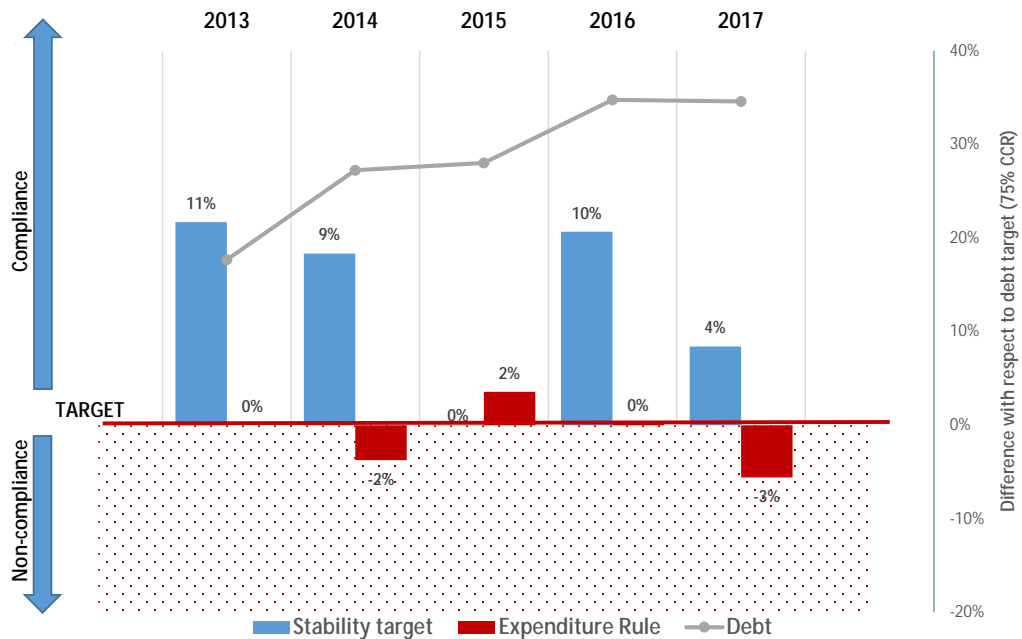


FIGURE 2. SITUATION/FORECAST REGARDING COMPLIANCE WITH STABILITY TARGET, EXPENDITURE RULE & DEBT LIMIT 2013-2017



### Salient results of assessment

- The city council expects to comply with the stability target and fail to comply with the expenditure rule by the end of 2017 and so, during the execution process, it must take the necessary steps to ensure compliance with both fiscal rules by the end of the financial year.
- There are no differences between the forecasts contained in the report on the main aspects of the budget for 2017 and the approved budget.

## Vigo City Council

FIGURE 1. NET BORROWING/NET LENDING (%INF).

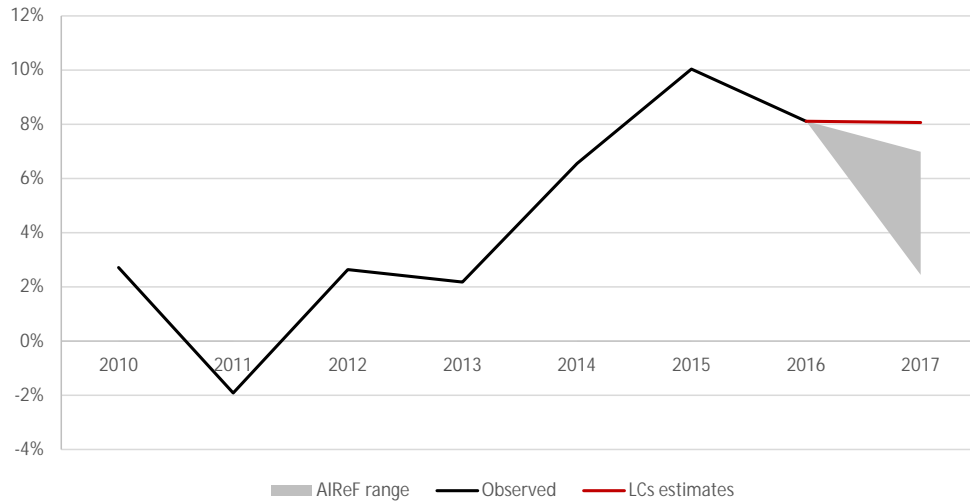
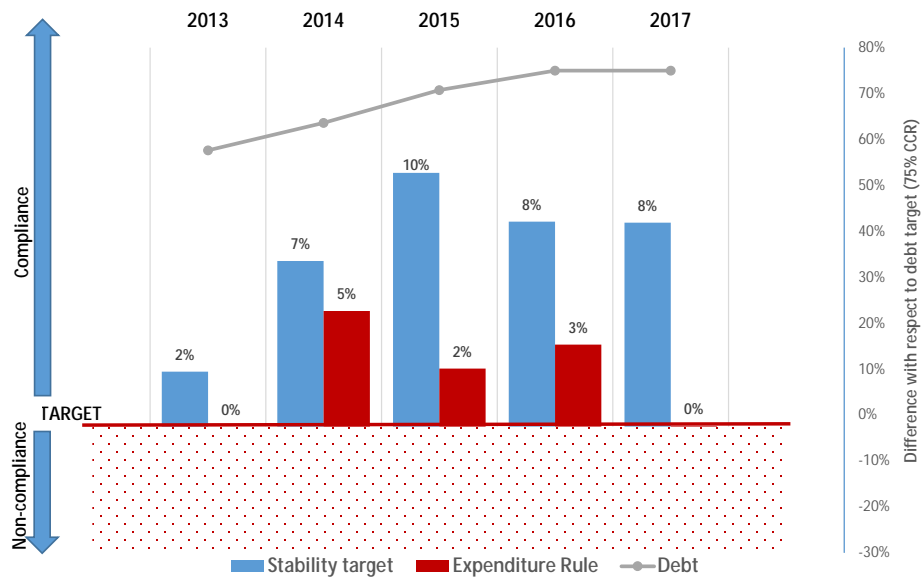


FIGURE 2. SITUATION/FORECAST REGARDING COMPLIANCE WITH STABILITY TARGET, EXPENDITURE RULE & DEBT LIMIT 2013-2017



### Salient results of assessment

- In 2017, the city council expects to comply with the stability target and expenditure rule, albeit by a very close margin in the last case, and so it must monitor the execution process to ensure compliance by the end of the financial year.
- As for detected differences between the forecasts contained in the report on the main aspects of the budget for 2017 and the actual initial budget, due to changes in the envisaged national accounting adjustments, there has been an increase of 16 M € in the initially envisaged surplus.

## Gijón City Council

FIGURE 1. NET BORROWING/NET LENDING (%INF).

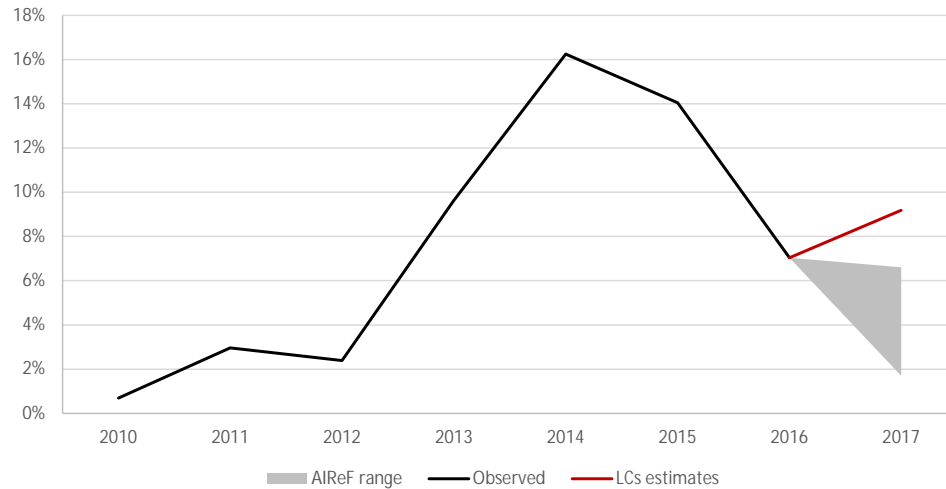
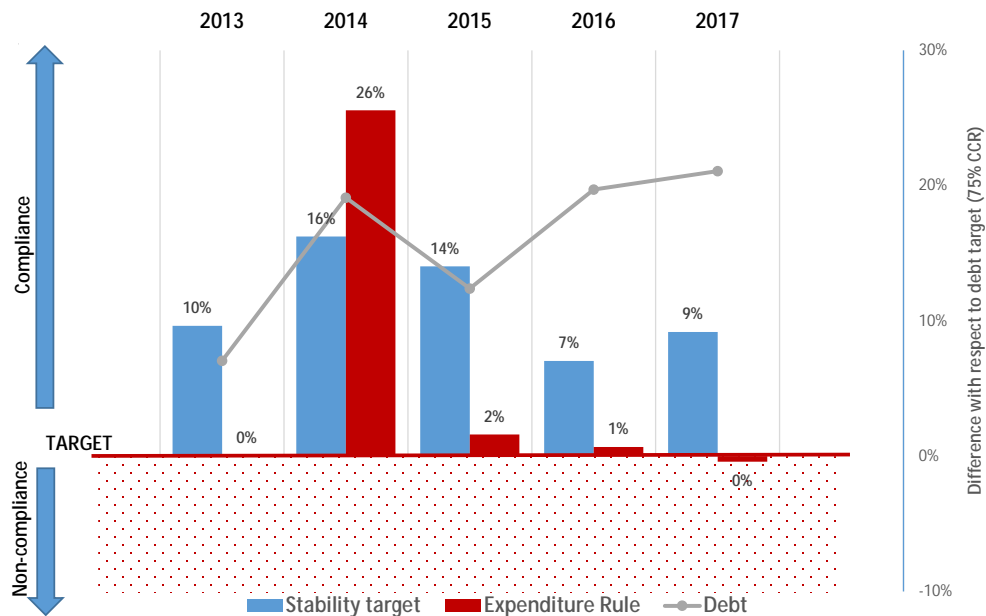


FIGURE 2. SITUATION/FORECAST REGARDING COMPLIANCE WITH STABILITY TARGET, EXPENDITURE RULE & DEBT LIMIT 2013-2017



### Salient results of assessment

- In 2017, the city council expects to comply with the stability target and to fail to comply with the expenditure rule, albeit by a narrow margin. However, AIREF considers that there is a risk of non-compliance with the said rule this year, because the approved budget includes envisaged non-implementations whose value might be over-estimated, and so the execution process must be monitored and, if applicable, the necessary steps taken to ensure compliance with both fiscal rules by the end of the financial year.
- As for detected differences between the forecasts contained in the report on the main aspects of the budget for 2017 and the actual initial budget, the currently envisaged non-implementations represent a 16 M € increase in the surplus.

## L'Hospitalet de Llobregat City Council

FIGURE 1. NET BORROWING/NET LENDING (%INF).

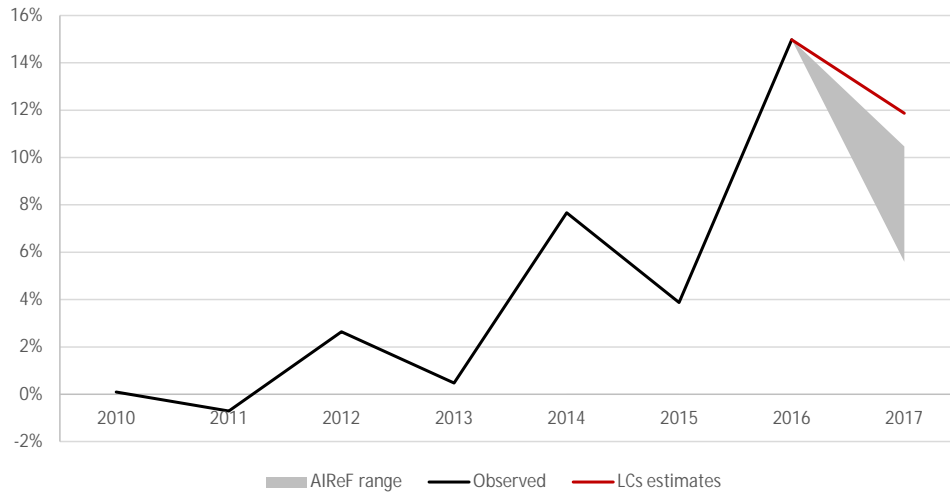
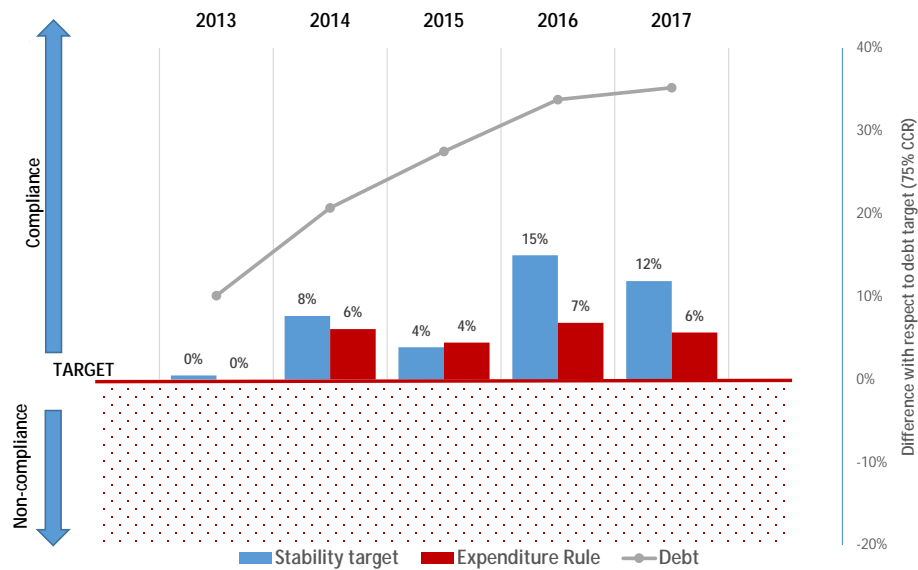


FIGURE 2. SITUATION/FORECAST REGARDING COMPLIANCE WITH STABILITY TARGET, EXPENDITURE RULE & DEBT LIMIT 2013-2017



### Salient results of assessment

- In 2017, this city council expects to comply with the stability target and expenditure rule. However, AIREF considers there to be a certain risk of failure to comply with the said rule in 2017, because the approved budget provides for non-implementations whose value is possibly over-estimated and so the execution process must be monitored to ensure compliance with both fiscal rules by the end of the financial year.
- As for detected differences between the forecasts contained in the report on the main aspects of the budget for 2017 and the actual initial budget, the currently envisaged non-implementations have pushed up the surplus by 18 M €.
- En relación a las variaciones detectadas entre las previsiones contenidas en las líneas fundamentales del presupuesto 2017 de esta Corporación y el presupuesto inicial, dada la inejecución actualmente estimada, el superávit se ha incrementado en 18 M €.

## Barcelona Provincial Council

FIGURE 1. NET BORROWING/NET LENDING (%INF).

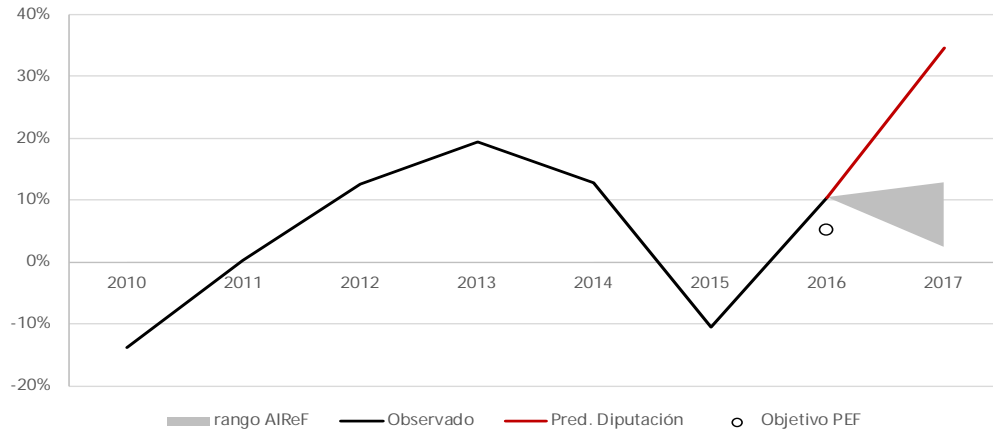
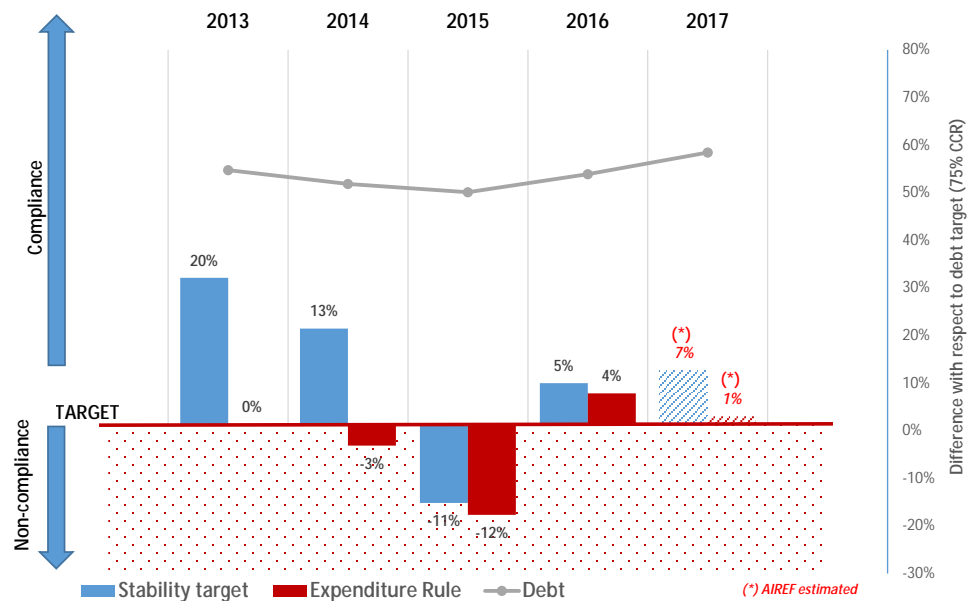


FIGURE 2. SITUATION/FORCAST REGARDING COMPLIANCE WITH STABILITY TARGET, EXPENDITURE RULE & DEBT LIMIT



### Salient results of assessment

- Because this provincial council failed to comply with the stability target and expenditure rule in 2015, it has an approved Economic & Financial Plan (EFP) that sets the targets for both rules for 2016.
- The data that was submitted regarding the budget approved for 2017 includes estimated non-implementations of 287 M €, coherent with a final budget. AIREF has made a forecast of this adjustment to adapt it to the approved budget, estimating that, even when this adjustment is amended to take into account the non-implementations, Barcelona Provincial Council would comply with both fiscal rules in 2017, although there might be a slight risk in terms of the expenditure rule.
- As for detected differences between the forecasts contained in the report on the main aspects of the budget for 2017 and the actual initial budget, given the over-estimated adjustment for non-implementations, the council estimates that there will be an increase of 263 M € in the surplus, which does not really seem to fit in with what might really occur.

## Valencia Provincial Council

FIGURE 1. NET BORROWING/NET LENDING (%INF).

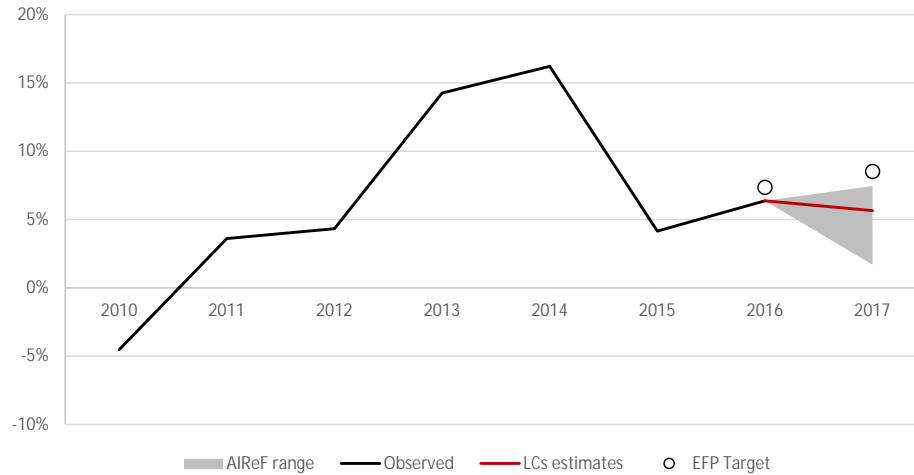
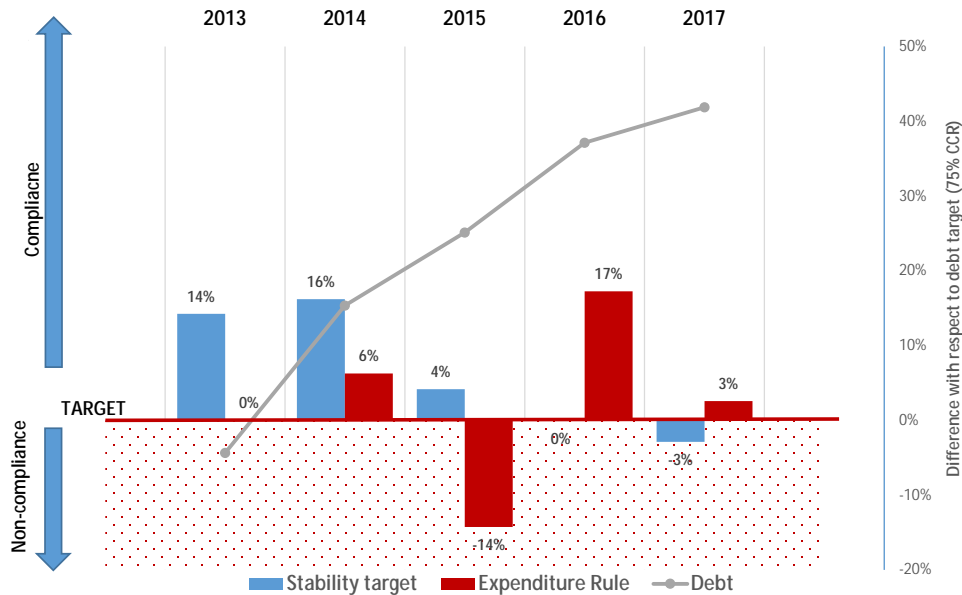


FIGURE 2. SITUATION/FORECAST REGARDING COMPLIANCE WITH STABILITY TARGET, EXPENDITURE RULE & DEBT LIMIT



### Salient results of assessment

- Due to non-compliance with the expenditure rule in 2015, this provincial council has an approved Economic & Financial Plan (EFP) that sets the limits of the stability target and expenditure rule for 2016 and 2017, having narrowly failed to comply with the stability target of the EFP in 2016. This means that it must adopt the measures contemplated in Article 25 of the LOEPSF.
- In addition, it expects to fail to comply with the stability target contemplated in the EFP for this year by a wide margin, which is why, during the execution process, it must take the necessary steps to ensure compliance with both fiscal rules by the end of the financial year.
- As for detected differences between the forecasts contained in the report on the main aspects of the budget for 2017 and the actual initial budget, due to the bigger decrease in non-financial expenditure than the drop in non-financial revenue, there has been a rise of 8 M € in the initially forecast surplus.

## Seville Provincial Council

FIGURE 1. NET BORROWING/NET LENDING (%INF).

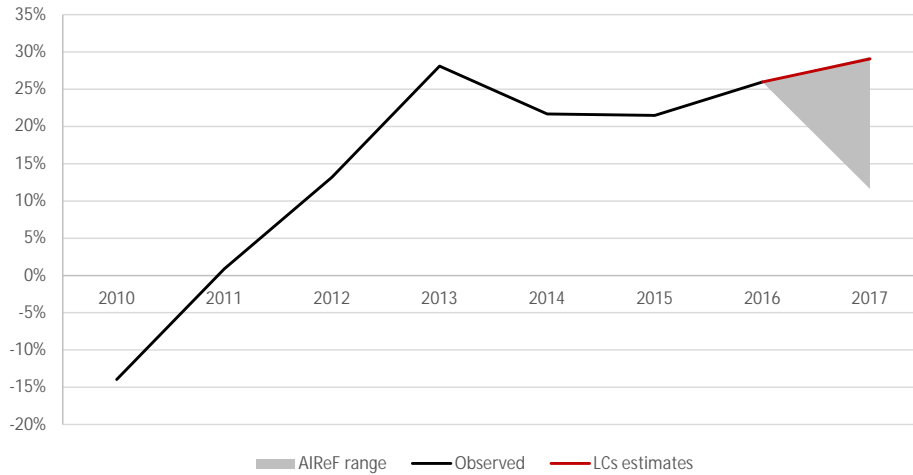
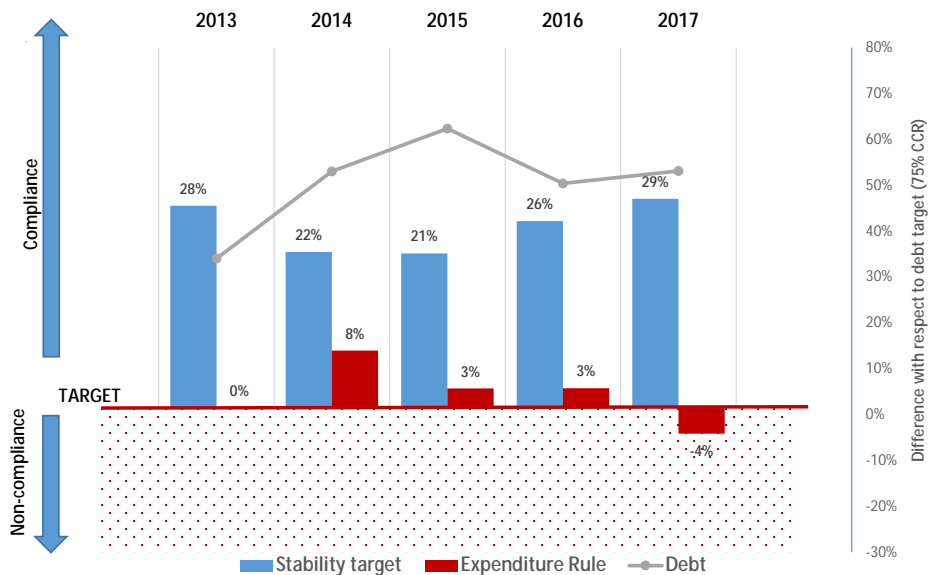


FIGURE 2. SITUATION/FORECAST REGARDING COMPLIANCE WITH STABILITY TARGET, EXPENDITURE RULE & DEBT LIMIT



### Salient results of assessment

- In 2017, this provincial council expects to comply with the stability target and fail to comply with the expenditure rule and so, during the execution process, it must take the necessary steps to ensure compliance with both rules by the end of the financial year. The approved budget for 2017 includes non-implementations that are probably over-estimated because they are based on final-budget data, and so the council might have over-estimated its compliance with the stability target and underestimated its non-compliance with the expenditure rule.
- As for detected differences between the forecasts contained in the report on the main aspects of the budget for 2017 and the actual initial budget, an increase of 31 M € in the surplus is forecast.



## Tenerife Island Council

FIGURE 1. NET BORROWING/NET LENDING (%INF).

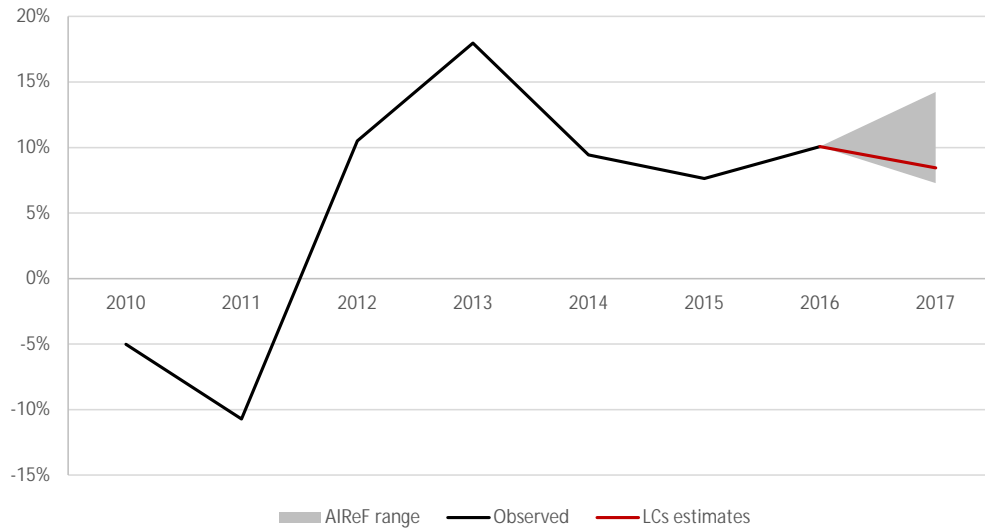
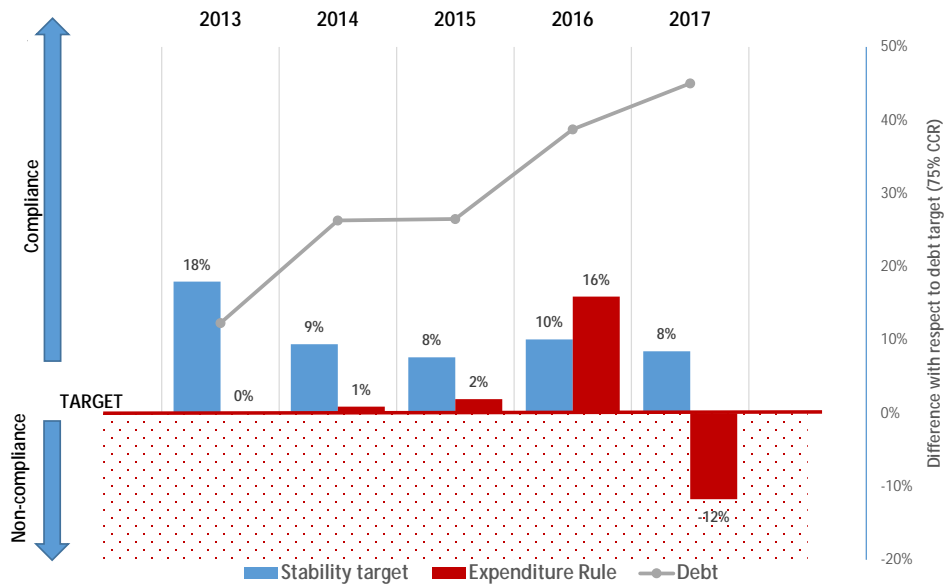


FIGURE 2. SITUATION/FORECAST REGARDING COMPLIANCE WITH STABILITY TARGET, EXPENDITURE RULE & DEBT LIMIT



### Salient results of assessment

- In 2017, this island council expects to comply with the stability target and fail to comply with the expenditure rule and so, during the execution process, it must take the necessary steps to ensure compliance with both fiscal rules by the end of the financial year.
- As for detected differences between the forecasts contained in the report on the main aspects of the budget for 2017 and the actual initial budget, the increase in envisaged non-financial revenue and expenditure has led to a growth of 12 M € in the surplus.

## Mallorca Island Council

FIGURE 1. NET BORROWING/NET LENDING (%INF).

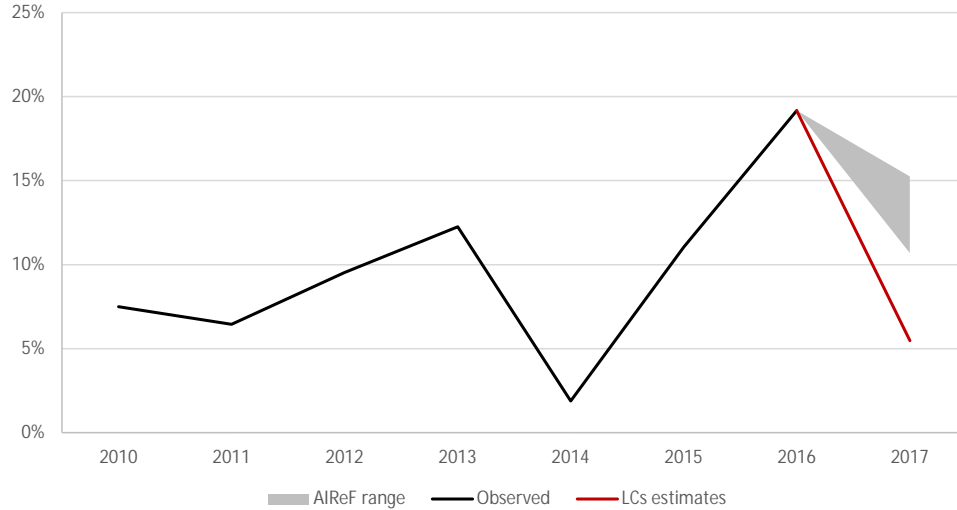
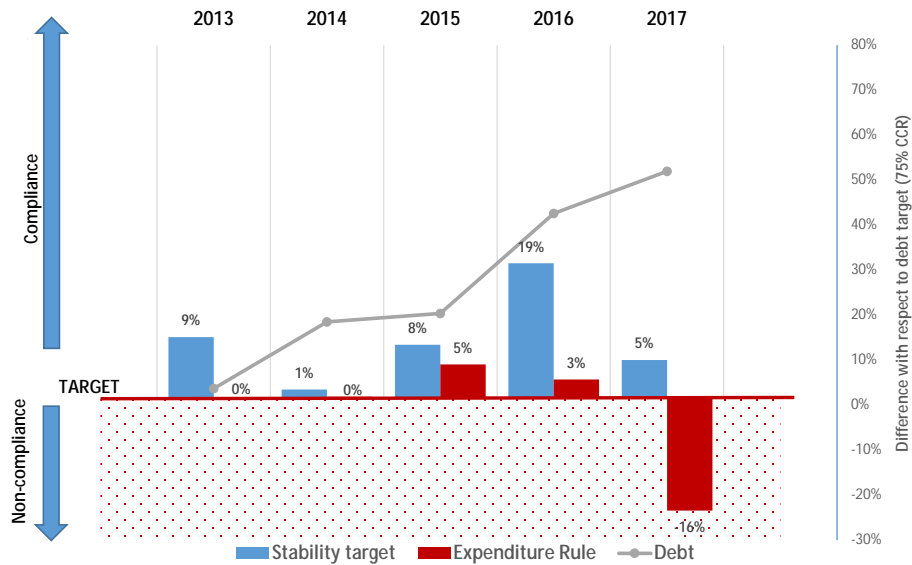


FIGURE 2. SITUATION/FORECAST REGARDING COMPLIANCE WITH STABILITY TARGET, EXPENDITURE RULE & DEBT LIMIT



### Salient results of assessment

- In 2017, this council expects to comply with the stability target and fail to comply with the expenditure rule and so, during the execution process, it must take the necessary steps to ensure compliance with both fiscal rules by the end of the financial year.
- As for detected differences between the forecasts contained in the report on the main aspects of the budget for 2017 and the actual initial budget, they have no significant effect on the balance of the initially forecast surplus.