



# Report on the La Rioja Region Economic-Financial Plan (EFP)

The report sent to the government in April by the Ministry of Finance & Public Administrations (MINHAP) determined the non-compliance by the La Rioja Autonomous Region of the budget stability and debt targets in 2014.

After analysing the region's draft Economic-Financial Plan (EFP), AIREF takes the following view:

- **STABILITY TARGET**: compliance with the budget stability target in 2015 and 2016 is possible.
- **DEBT TARGET**: the uncertainty surrounding the debt targets and possible exceptions to be approved by MINHAP with a view to their appraisal makes it impossible for a forecast to be made about compliance with them.
- **EXPENDITURE RULE**: Moreover, the Organic Law 2/2012 on Budget Stability and Financial Sustainability (LOEPSF) and the Report on the Council of Ministers Decision (ACM, *Acuerdo del Consejo de Ministros*) of 27 June 2014 state that when a public administration has an EFP, the growth rate of eligible expenditure must not exceed the growth path specified in it. Therefore, the EFP should be expanded by including the necessary information required to be able to assess compliance with the expenditure rule in the period covered by the plan (2015 and 2016).

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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## 1. Budget stability target

### 2015

AIReF considers that compliance with the budget stability target seem sufficient to be able to meet the budget stability target and the year-end forecasts estimated by the region are consistent with the development of revenue and expenditure and with the budget implementation data available to date.

In 2014 La Rioja's borrowing amounted to 1.2% of its GDP, with the result that it failed to comply with the budget stability target set at -1% of GDP.

The region has put forward **MEASURES** representing 0.3% of its GDP (€22 million), of which 0.2% corresponds to measures designed to increase revenue and 0.1% to reduce its expenditure.

The key **revenue measure** stems from implementation of Royal Decree-Law 6/2015 of 14th May, whereby the State Administration (AGE) grants the Autonomous Region of La Rioja —once it has joined the Financing Fund Financial Facility— subsidies totalling €9.8 million (0.1% of GDP)<sup>1</sup> for it to finance its investments. Also, the region is estimating financial transfers from the State in compensation for health expenditure and some revenue through the tax on deposits in credit institutions (*Impuesto sobre los depósitos en las entidades de crédito*, IDEC), created by the State in Law 16/2012 of 27 December, adopting a number of different taxation measures aiming to consolidate public finances and stimulate economic activity. The joint effect of these measures represents 0.1% of GDP. Nevertheless, the region will only obtain the health expenditure compensation subject to recognition of the obligation to pay by the State.

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<sup>1</sup> Measure entitled "Agreement with the AGE on financing infrastructure" adopted in the framework of Royal Decree-Law 17/2014 of 26 December on financial sustainability measures for the Autonomous Regions and Local Entities and other measures of an economic nature (Additional provisional 8, section 3).

As far as **expenditure measures** are concerned, their impact valued at year-end amounts to 0.1% of GDP (€5.2 million). The main saving is on financial expenses, primarily through application of RDL 17/2014.

With regard to the **BUDGETARY SCENARIO** forecast for the year-end, the EFP shows that La Rioja is estimating an increase in non-financial expenditure, after stripping out the effect of the obligations recorded in non-budgetary accounts, valued at 0.1% of GDP (€9 million more than 2014), despite the effect of expenditure measures that entail a reduction in expenditure totalling 0.1% GDP. The budget implementation data published up to the date of publication of this report are consistent with the estimated year-end forecast by the region.

With regard to the revenue scenario, the region is estimating an increase in non-financial revenue other than the revenue from the regional funding system (interim payments and settlement) amounting to 0.3% of GDP (€25 million), of which 0.2% stems from the effect of the measures.

According to the budget implementation data available to date, the revenue scenario forecast by the region seems consistent and would allow the necessary adjustment to be made to comply with the target.

## **2016**

**Despite the fact that the region is not envisaging the adoption of any measures in 2016, compliance with the -0.3% of GDP target is deemed likely given the positive development of revenues associated with the autonomous region financing system.**

AIReF's assessment of the **MEASURES** for 2016 is negative. This is because there will be a reversion of the measures implemented in previous years, such as the AGE Agreement on infrastructure financing and the interest expense saving stemming from RDL 17/2014.

With regard to the **BUDGETARY SCENARIO** forecast at year-end, in its EFP the region is estimating an increase in non-financial revenue amounting to 0.7% of GDP (€61 million), mainly due to the increase in resources from the regional financing system.

The forecast for those financial resources (interim payment in 2016 and the expected settlement for 2014) as calculated by the region seems consistent with the projections made by AIReF. The basis used for the projections are the data published by the Spanish Tax Authority (AEAT) and the State Comptroller's Office (IGAE) regarding collection of taxes ceded to the region in 2014 (which will impact the settlement of the funding system

corresponding to that year) and the macroeconomic assumptions for 2016 contained in the 2015-2018 Stability Programme Update.

As regards the expenditure scenario, the region is forecasting an increase in non-financial expenses, after stripping out the effect of obligations recorded in non-budgetary accounts amounting to 0.1% of the region's GDP (€6 million).

Despite the absence of any positive effect of any measures to be taken and the increase envisaged by the region for non-financial expenditure, AIReF considers compliance by La Rioja with its stability target in 2016 to be likely, primarily because of the favourable development of revenues associated with the regional financing system.

## **2. Debt target**

According to data published by Banco de España, La Rioja's total debt at 31st December 2014 was €1.29 billion, equivalent to 16.5% of its regional GDP. The target set for 2014 for the region in the Council of Ministers Decision (ACM, *Acuerdo del Consejo de Ministros*) of 12th September 2014 was 15.8% of GDP. However, MINHAP has since recalculated La Rioja's target to incorporate the exceptions envisaged by the ACM, raising the target to a debt/GDP ratio of 16.2% of GDP. That means the region's debt at year-end 2014 was €25 million higher than the revised target for the region in that period. Consequently, La Rioja failed to comply with its debt target in 2014.

The starting point for the 2015 debt target is the level of debt reached by the region at year-end 2014, after deducting the €25 million excess debt over and above the target permitted. However, although the baseline debt figure is known, the current system for setting the debt target does not allow AIReF to know at the date of publication of this report either the debt target for 2015 (the initial 16.4% target set last year for 2015 has already been exceeded) or the exceptions that will allow the debt target to be recalculated at year-end 2015.

According to the data furnished by the region, its debt at year-end 2015 will amount to almost €1.39 billion, 17% of the region's GDP, and at year-end 2016, €1.38 billion, 16.5% of its GDP. However, the uncertainty surrounding what the debt targets actually are for year-end in 2015 and 2016 does not allow AIReF to make any forecast about compliance with them.

### 3. Expenditure rule

The variation rate of the expenditure eligible to be included in the expenditure rule calculation in La Rioja in 2014 was -1.9%, when the medium-term reference growth rate of the economy was 1.5%. As a result, and in line with the report issued by MINHAP, the region complied with the expenditure rule in 2014. Nevertheless, AIReF considers that to be able to evaluate and monitor the expenditure rule, the necessary information required to calculate the growth in the eligible expenditure in the reference period in the plan (2015 and 2016) should be incorporated into the EFP.

Under article 12 of the LOEPSF, whenever a public administration has an EFP or a rebalancing plan, compliance with the expenditure rule shall take into account that the growth in the eligible expenditure to be included in the calculation must be aligned with the path stated in the corresponding plans. This circumstance is explicitly noted in the report of the Council of Ministers Decision of 27 June 2014 setting the reference rates of the expenditure rule for 2015-2017.

In accordance with the above, any EFPs that are submitted must contain sufficient information to allow for an appraisal to be made of the expenditure rule both at the time of approval of the EFP as well as in the quarterly monitoring exercise conducted by MINHAP. For that purpose it would be advisable for MINHAP to prepare a standard form in which the required information can simply be filled in so that a like-for-like calculation for all the Autonomous Regions (ARs) could be made for non-financial uses (with the required detail of adjustments in national accounting terms), as well as the exceptions necessary to obtain the computable expenditure.

## ANNEX

 1. DOCUMENT CONSISTENCY AND QUALITY OF INFORMATION

<u>VARIABLES</u>	ADEQUATE	INCOMPLETE	INADEQUATE
<b>OBJETIVITY</b>	X		
<b>CLARITY</b>	X		
<b>CONCRETENESS</b>	X		
<b>INTEGRITY</b>			
▪ <b>Content of article 21 of the LOEPySF</b>			
1. Causes of non-compliance	X		
2. Trend forecasts	X		
3. Description, quantification and calendar of measures	X		
4. Economic and budgetary forecasts	X		
5. Sensitivity analysis		X	
▪ <b>Other information</b>	X		

 2. ADEQUACY OF FORECASTS WITH RESPECT TO THE TARGETS

 2.1 STABILITY TARGET

<u>VARIABLES</u>	ADEQUATE	INCOMPLETE	INADEQUATE
<b>ECONOMIC VARIABLES</b>	X		
<b>CONSISTENCY OF BUDGETARY SCENARIO-MEASURES</b>			
▪ <b>Revenue scenario</b>			
1. Revenues from regional funding system (interim payments and final settlement)	X		
2. All other revenues from the funding system	X		
3. Other taxation revenues	X		
4. All other revenues	X		
▪ <b>Expenditure scenario</b>			
1- Personnel expenditure	X		
2- Financial expenditure	X		
3- All other current expenditure	X		
4- Capital expenditure	X		
▪ <b>Adjustments in national accounts terms</b>			
1. Uncertain revenue collection	X		
2. Interest	X		
3. Account 409/413	X		
4. Non-implementation	-	-	-
5. All other adjustments	X		

3. SUFFICIENCY OF MEASURES

3.1 REVENUES

3.1.1 TAX REVENUES

<b>VARIABLES</b>	<b>ADEQUATE</b>	<b>INCOMPLETE</b>	<b>INADEQUATE</b>
DEGREE OF IMPLEMENTATION OF MEASURES IN PREVIOUS YEARS	X		
CONCRETENESS	X		
LEGAL-ADMINISTRATIVE CONTEXT OF THE MEASURES	X		
INDICATION OF THE PROCEDURE	X		
DEGREE OF IMPLEMENTATION	X		
ADEQUACY OF THE ECONOMIC IMPACT	X		

3.1.2 NON-TAXATON REVENUES

<b>VARIABLES</b>	<b>ADEQUATE</b>	<b>INCOMPLETE</b>	<b>INADEQUATE</b>
DEGREE OF IMPLEMENTATION OF MEASURES IN PREVIOUS YEARS	X		
CONCRETENESS	X		
LEGAL-ADMINISTRATIVE CONTEXT OF THE MEASURES	X		
INDICATION OF THE PROCEDURE	X		
DEGREE OF IMPLEMENTATION	X		
ADEQUACY OF THE ECONOMIC IMPACT	X		

(\*) The “Agreement with AGE infrastructure financing” measure stems from RDL 17/2014, which makes it a discretionary measure for the State.

### 3.2 EXPENDITURE

#### 3.2.1 PERSONNEL EXPENDITURE

<b>VARIABLES</b>	<b>ADEQUATE</b>	<b>INCOMPLETE</b>	<b>INADEQUATE</b>
<b>DEGREE OF IMPLEMENTATION OF THE MEASURES IN PREVIOUS YEARS</b>	X		
<b>CONCRETENESS</b>	X		
<b>LEGAL-ADMINISTRATIVE CONTEXT OF THE MEASURES</b>	X		
<b>INDICATION OF THE PROCEDURE</b>	X		
<b>DEGREE OF IMPLEMENTATION</b>	X		
<b>ADEQUACY OF THE ECONOMIC IMPACT</b>	X		

#### 3.2.2 FINANCIAL EXPENDITURE (\*)

<b>VARIABLES</b>	<b>ADEQUATE</b>	<b>INCOMPLETE</b>	<b>INADEQUATE</b>
<b>DEGREE OF IMPLEMENTATION OF THE MEASURES IN PREVIOUS YEARS</b>	-	-	-
<b>CONCRETENESS</b>	X		
<b>LEGAL-ADMINISTRATIVE CONTEXT OF THE MEASURES</b>	X		
<b>INDICATION OF THE PROCEDURE</b>	X		
<b>DEGREE OF IMPLEMENTATION</b>	X		
<b>ADEQUACY OF THE ECONOMIC IMPACT</b>	X		

(\*) The financial expenditure measures arise mainly from the application of RDL 17/2014, which makes them discretionary measures for the State.