



Independent Authority  
*for* Fiscal Responsibility

Report on the General Government  
sector 2016 draft budgets and main  
budgetary lines:  
*Local Corporations*

# Contents

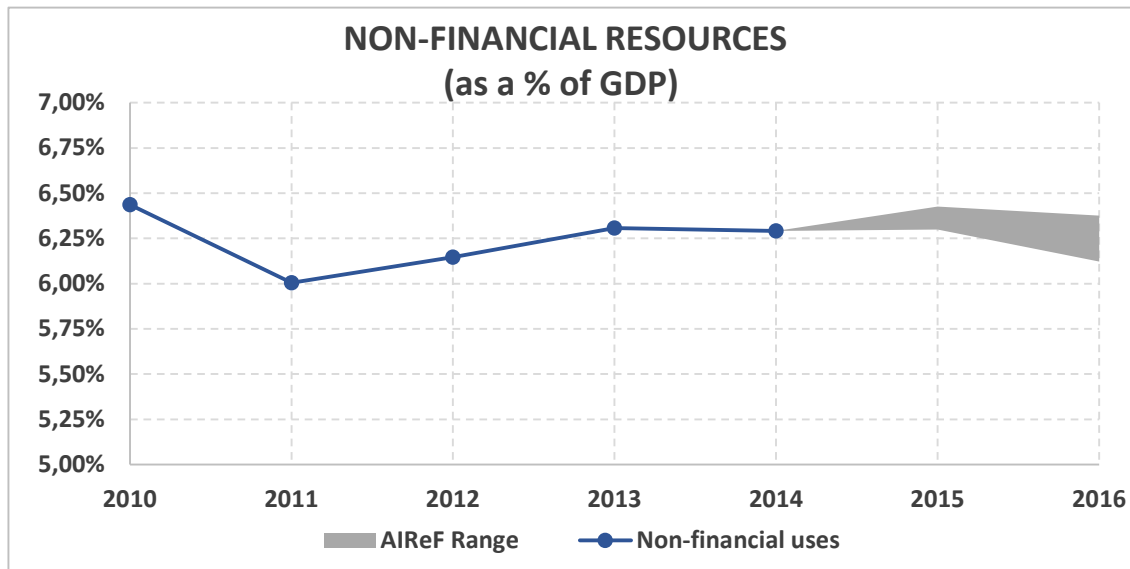
1. Object of the report
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4. Individualised analysis of the six largest city councils
5. AIReF's recommendations

# 1. Object of the report

- ✓ The object of this report is to make an assessment of the main lines of the budgets prepared by the Local Corporations (LCs) in Spain from the standpoint of their adequacy for the budget stability and government debt targets and the expenditure rule.
- ✓ AIReF gives a view on the three fiscal rules in the Local Corporation subsector in Spain and the six provincial capital city councils with more than 500,000 inhabitants.

## 2. Budget stability target and expenditure rule

**Non-financial resources becoming slightly more stable at around 6% of GDP after the increase in 2011-2013.**



Source: MINHAP and AIReF estimates

Average structure of non-financial revenue in the Local Corporations:

- The 5 local taxes account for 43% of the total: IBI property tax is 29% of the total.
- Financing system revenue represent 36% of the total.

## 2. Budget stability target and expenditure rule

Implementation of the expenditure budget in the Local Corporations is less than 60% of the initial approved budget appropriations since the entry into force of the LOEPSF due to:

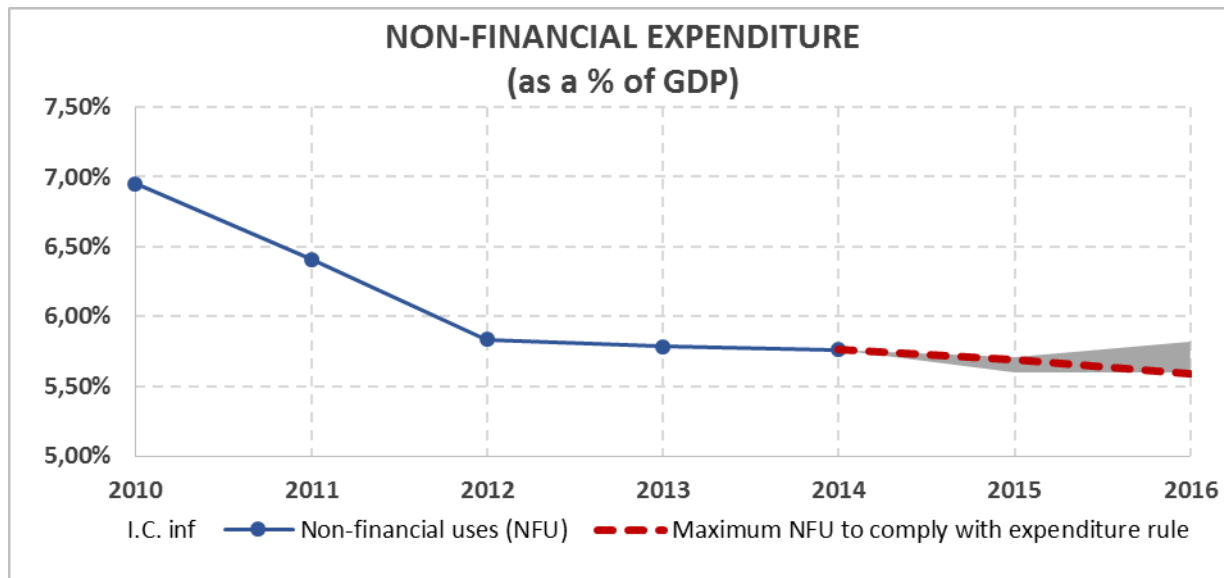
- ✓ Application of the expenditure rule.
- ✓ Limitations on using cash savings from the expenditure rule.
- ✓ Legal constraints on debt: positive net saving and outstanding debt ratio.

<b>FINAL BUDGET IMPLEMENTATION</b>			
<b>(euros collected in revenue/spent for each euro in the budget)</b>			
<b>Non-financial revenue</b>		<b>Non-financial expenditure</b>	
<b>2001-2011</b>	<b>2012-2014</b>	<b>2001-2011</b>	<b>2012-2014</b>
<b>Before the stability legislation came into force</b>	<b>After the stability legislation came into force</b>	<b>Before the stability legislation came into force</b>	<b>After the stability legislation came into force</b>
<b>1.24</b>	<b>0.92</b>	<b>1.07</b>	<b>0.55</b>

Source: MINHAP and AIReF estimates

## 2. Budget stability target and expenditure rule

**Non-financial expenditure** allowing for compliance with the expenditure rule in 2015 and 2016 fall within the confidence interval of AIReF's forecasts.

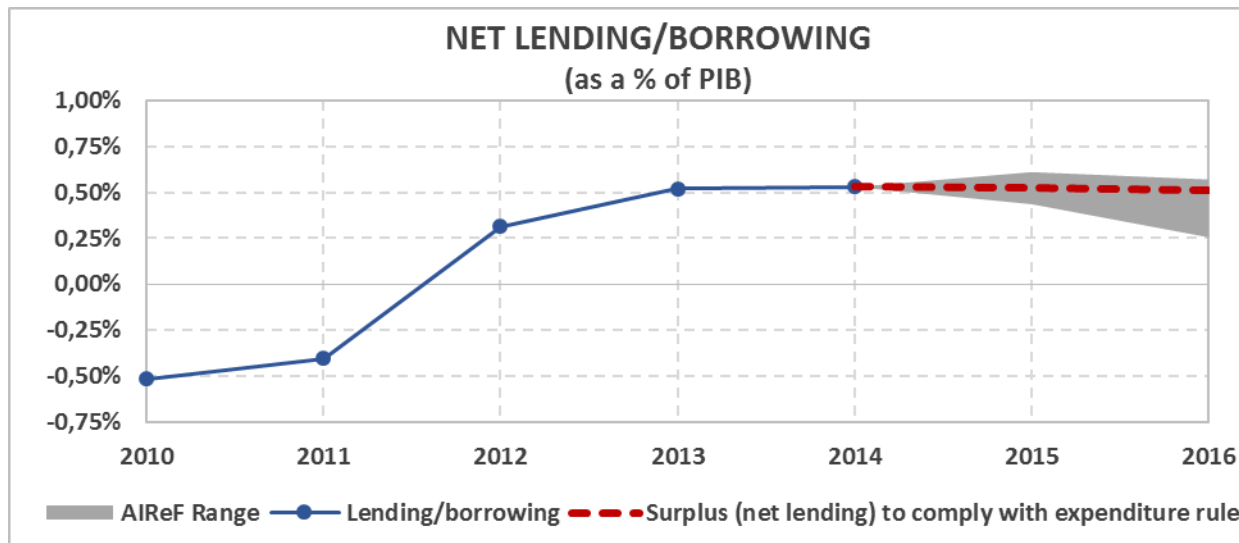


Source: MINHAP and AIReF estimates

This estimate includes the local government reform savings reduction, the impact of personnel measures and the booking of capital expenditure made in the Zaragoza tramline to 2015 results as required by Eurostat.

## 2. Budget stability target and expenditure rule

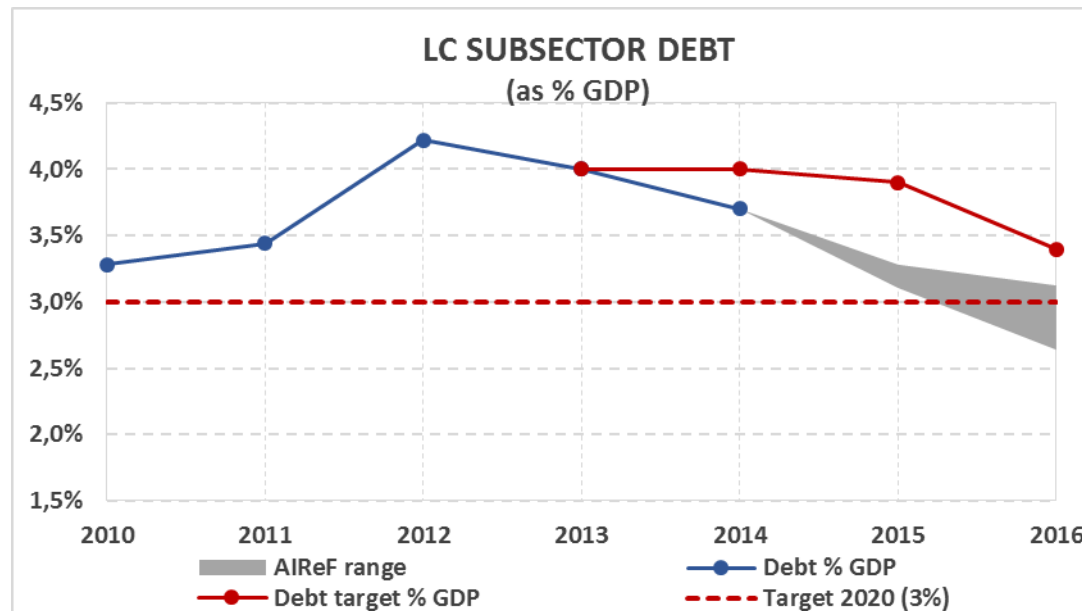
AIReF considers it highly likely that the LC subsector will comfortably meet the budget stability target in 2016, although the possible surplus might be lower than the surplus obtained in previous years.



Source: MINHAP and AIReF estimates

# 3. Government debt target

AIReF believes it is highly likely that in 2015 and 2016 the debt target in the Local Corporations subsector will be easily achieved.



**Note:** 2013-2016 targets do not include debt from extraordinary supplier payment mechanisms

And if the LCs continue to bring down their level of debt in line with the constant trend since 2012 the long-term target (3% of GDP) will be achieved in 2016.





# 4. Comparative picture of the individualised analysis of the six largest city councils

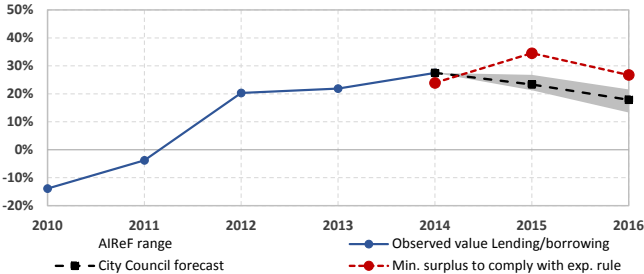
COMPARATIVE PICTURE OF COMPLIANCE WITH FISCAL RULES BY CITY COUNCILS						
City Council	Stability target		Expenditure rule		Outstanding debt to consolidated current revenue ratio	
	2015 Forecast	2016 Forecast	2015 Forecast	2016 Forecast	2015 Forecast	2016 Forecast
Madrid	✓	✓	✗	✗	Between 75% and 110%	Between 75% and 110%
Barcelona	✓	✓	✗	✗	Less than 75%	Less than 75%
Valencia	✓	✓	✗	✗	Between 75% and 110%	Between 75% and 110%
Sevilla	✓	✓	No information supplied	No information supplied	Less than 75%	Less than 75%
Málaga	✓	✓	✓	✓	Between 75% and 110%	Less than 75%
Zaragoza (*)	✗	✓	✗	✓	More than 110%	More than 110%
✓	Compliance					
✗	Non-compliance					
Less than 75%	Authorisation not required for new debt operations					
Between 75% and 110%	Authorisation required from oversight body for new debt operations					
More than 110%	Cannot take on more debt					
(*)	Includes the adjustment required by Eurostat for investments in the tramline. Without this adjustment Zaragoza would comply with the stability target and the expenditure rule in 2015 and its debt ratio would not be over 110%					

Sevilla City Council has sent a written undertaking to send the information as soon as possible.

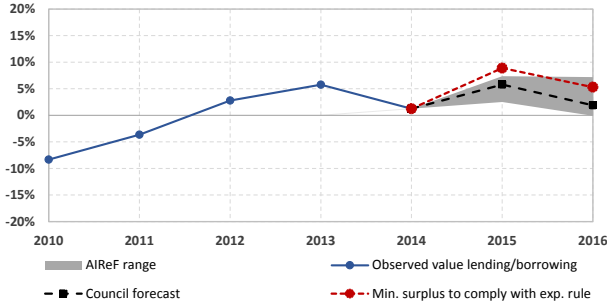
# 4. Comparative picture of the six largest city councils

## Net borrowing/lending and expenditure rule (% of consolidated non-financial revenue)

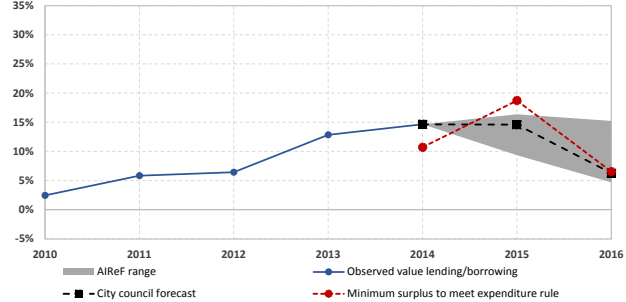
**MADRID CITY COUNCIL  
LENDING/BORROWING  
AS A % OF CONSOLIDATED NON-FINANCIAL REVENUE**



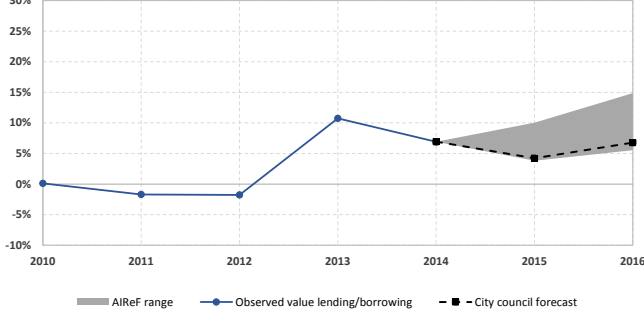
**BARCELONA CITY COUNCIL  
LENDING / BORROWING  
AS A % OF CONSOLIDATED NON-FINANCIAL REVENUE**



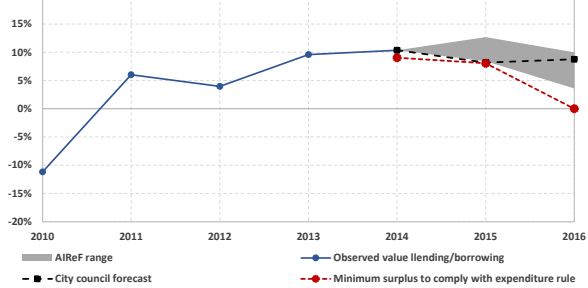
**VALENCIA CITY COUNCIL  
LENDING / BORROWING  
AS A % OF CONSOLIDATED NON-FINANCIAL REVENUE**



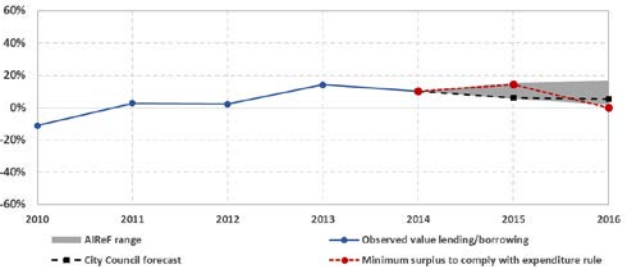
**SEVILLA CITY COUNCIL  
LENDING / BORROWING  
AS A % OF CONSOLIDATED NON-FINANCIAL REVENUE**



**MALAGA CITY COUNCIL  
LENDING / BORROWING  
AS A % OF CONSOLIDATED NON-FINANCIAL REVENUE**



**GRAPH 16: ZARAGOZA.  
LENDING / BORROWING  
AS A % OF CONSOLIDATED NON-FINANCIAL REVENUE  
EXCLUDING IMPACT OF ADJUSTMENT FOR TRAM SYSTEM INVESTMENT**

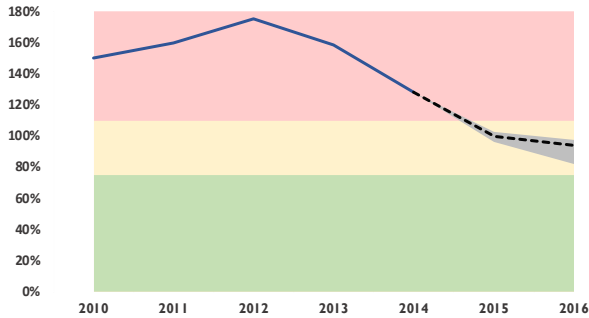


# 4. Comparative picture of the six largest city councils

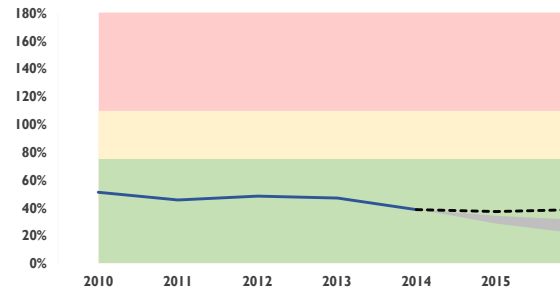
## Outstanding debt ratio (as % of consolidated current revenue)

■ More than 110%   
 ■ Between 75% and 110%   
 ■ Less than 75%  
■ AIReF range   
 — Outstanding debt/CCR   
 - - - City council forecast

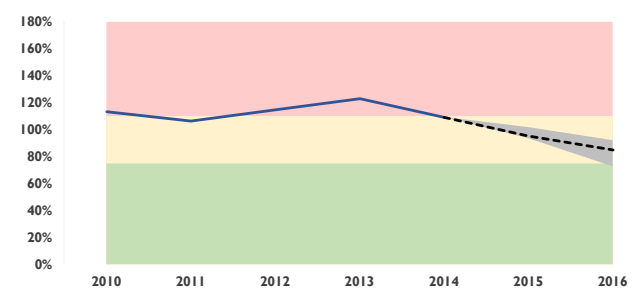
MADRID CITY COUNCIL



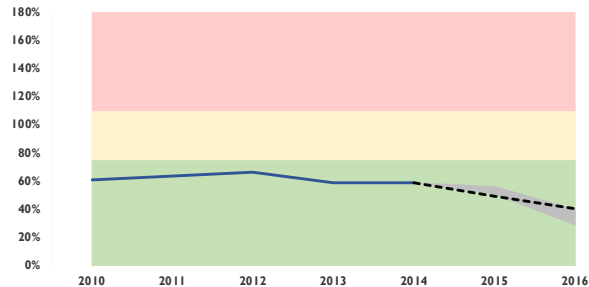
BARCELONA CITY COUNCIL



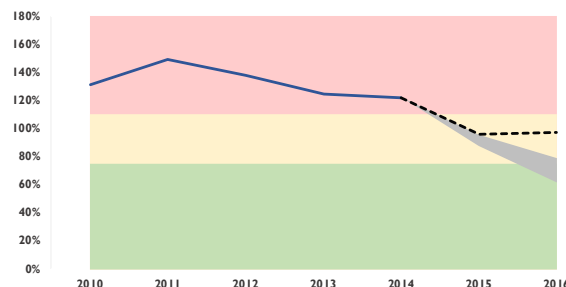
VALENCIA CITY COUNCIL



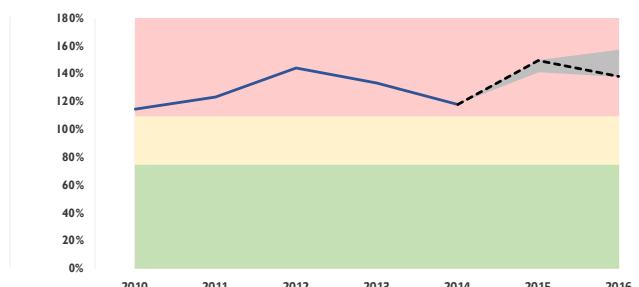
SEVILLA CITY COUNCIL



MALAGA CITY COUNCIL



ZARAGOZA CITY COUNCIL



## 5. AIReF's recommendations

### Stability target and expenditure rule

- Each local corporation should set the stability target of its budgets by taking into account the expenditure rule in the terms stipulated in article 15 of the LOEPSF

### Expenditure rule

- The information needed to calculate the expenditure rule and an analysis of the consistency of this rule with the budget balance or surplus inferred from the budget scenario of revenue and expenditure assessed in national accounts terms

### Financing system

- Analyse the regional and local financing systems together and make any normative modifications necessary that will allow the financing system to be brought into line with the expenditure level and the financial capacity of each subsector, thus contributing to a more efficient distribution and use of public resources.

### Other recommendations

- Publication of all the data required for verification of compliance with the stability target and expenditure rule by the LCs and individualised information on the six largest city councils in national accounts terms.
- Facilitate access for AIReF to the information on LCs that is necessary for AIReF to properly fulfil its functions and establish a system similar to the one that exists for regional financial oversight bodies.



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