



Independent Authority
for Fiscal Responsibility

Report

27th July 2015

Report on the Asturias Region Economic-Financial Plan

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

After analysing the draft Economic-Financial Plan (EFP), AIReF is of the view that compliance with the budget stability target in 2015 and 2016 is possible.

Nonetheless, Organic Law 2/2012 on budget stability and financial sustainability (LOEPSF) and the report of the Council of Ministers' Decision of 27th June 2014 (ACM) state that whenever a public administration has an EFP growth in the expenditure eligible to be included in the calculation has to be in line with the path set out for it in that EFP. Therefore, the Asturias Region EFP should be expanded to include the information needed to be able to assess compliance with the expenditure rule in the period covered by the EFP (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

Compliance with the budget stability target set at -0.7% of GDP for 2015 is deemed possible by AIReF. However, there are some doubts about the estimation made of certain items of revenue and expenditure, which could lead to a slight deviation if they materialise.

In 2014 the region's borrowing amounted to 1.3% 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 0.2% of GDP (€44 million), of which 0.1% of GDP corresponds to measures designed to boost revenue and 0.1% to measures to reduce expenditure.

The key **revenue measure** is the disposal of real estate assets from which the region expects to collect revenue amounting to 0.05% of GDP. No documentary justification has been provided for the concrete operations these measures involve. The implementation data up to April show uncertainty with regard to their full materialisation in the financial year. All other tax revenue-related measures are fundamentally concentrated in measures concerning personal income tax (IRPF) and the tax on deposits in credit entities (IDEC), created by the State in Law 16/2012 of 27th December, adopting a variety of taxation measures aiming to consolidate the public finances and stimulate economic activity.

As far as the **expenditure measures** are concerned, their effect valued at year-end represents 0.1% of GDP (€26 million). If the reinstatement in 2015 of the 2012 extraordinary public employee salary payment were excluded, the expenditure measures would amount to 39 million because of the interest savings stemming from RDL 17/2014 (0.2% of GDP).

With regard to the **BUDGETARY SCENARIO** forecast at year-end, it can be seen in the EFP that the region is estimating an increase in non-financial revenue other than the revenue from the regional funding system (interim payments and final settlement) amounting to 0.3% of GDP (€55 million), although the expected effect of the measures adopted represents 0.1% of GDP. Specifically, revenue is expected from the disposal of real estate assets for which documentary justification of the concrete operations involved has not been provided. With the implementation data available to April, uncertainty is perceived surrounding their full materialisation before the end of the year. In addition, there are uncertainties about the forecast for capital transfers although the region says the reason is the delay in the start-up of the 2014-2020 operational programme. Nevertheless, there may

be upside margin in the forecast made by the region for the tax on asset transfers and documented legal acts (ITPyAJD). According to implementation data available to date and the study carried out by AIReF on the revenue projections for the tax, taking into account information on the development of free-market price housing prices published by INE (National Statistical Institute) and the data on second-hand housing transactions compiled by the Professional College of Registrars, the growth forecast estimated by the region as 9.7% seems prudent.

With regard to the expenditure scenario, the region is estimating an increase in non-financial expenditure, after stripping out the effect of the obligations recorded in non-budgetary accounts, valued at 0.4% of GDP (€93 million more than in 2014), although the expected effect of the measures adopted represents 0.1% of GDP. The budget implementation data to date show an increase in non-financial expenditure compared to the previous year that is higher than expected by the region, mainly in current capital transfers.

Lastly, under national accounting adjustments, the region is forecasting an adjustment for uncertain revenue collection that is less than the adjustment made in previous years (-0.07% of GDP in 2015, when the negative adjustment in 2014 was -0.3% of GDP).

2016

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

The effects of the **MEASURES** for 2016 are assessed as negative as they stem from the reversal of measures adopted in previous years (0.05% of GDP), in revenue due to the disposal of real estates assets in 2015 and in expenditure due to the reversal of the measure taken to reinstate in 2015 the extraordinary public employee salary payment for 2012 and the interest payment saving arising 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 0.6% of GDP (€137 million).

The forecast for financial resources from the regional funding system (interim payments in 2016 and the expected settlement for 2014) as calculated by the region seems prudent according to 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 funding system settlement corresponding to that year) and the macroeconomic assumptions for 2016 contained in the 2015-2018 Stability Programme Update.

In 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 0.2% of the region's GDP (€33 million).

2. Expenditure rule

The variation rate of the expenditure eligible to be included in the expenditure rule calculation for Asturias in 2014 was 0.5%, 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 27th 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
OBJECTIVITY	X		
CLARITY	X		
CONCRETENESS	X		
INTEGRITY			
▪ Content of article 21 of the LOEPySF			
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	
▪ Other information	X		

2. ADEQUACY OF THE FORECASTS WITH RESPECT TO THE TARGETS

2.1 STABILITY TARGET

<u>VARIABLES</u>	ADEQUATE	INCOMPLETE	INADEQUATE
ECONOMIC VARIABLES		X	
CONSISTENCY OF BUDGETARY SCENARIO-MEASURES			
▪ Revenue scenario			
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	
▪ Expenditure scenario			
1- Personnel expenditure	X		
2- Financial expenditure	X		
3- All other current expenditure		X	
4- Capital expenditure		X	
▪ Adjustments in national accounts terms			
1. Uncertain revenue collection		X	
2. Interest	X		
3. Account 409/413	-	-	-
4. Non-implementation	-	-	-
5. All other adjustments	X		

3. SUFFICIENCY OF MEASURES

3.1 REVENUES

3.1.1 TAX REVENUES (*)

VARIABLES	ADEQUATE	INCOMPLETE	INADEQUATE
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 tax on deposits in credit institutions (IDEC) was created by the State in Law 16/2012 and is therefore a State discretionary measure.*

3.1.2 NON-TAXATION REVENUES

VARIABLES	ADEQUATE	INCOMPLETE	INADEQUATE
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	

3.2 EXPENDITURE

3.2.1 PERSONNEL EXPENDITURE

VARIABLES	ADEQUATE	INCOMPLETE	INADEQUATE
DEGREE OF IMPLEMENTATION OF THE 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		

3.2.2 FINANCIAL EXPENDITURE (*)

VARIABLES	ADEQUATE	INCOMPLETE	INADEQUATE
DEGREE OF IMPLEMENTATION OF THE MEASURES IN PREVIOUS YEARS	-	-	-
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 financial expenditure measures arise mainly from the application of RDL 17/2014, which makes them State discretionary measures.