



Report on the Castilla y León 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 Autonomous Region of Castilla y León of the budget stability and debt targets in 2014.

After analysing the 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 the Ministry of Finance and Public Administrations (MINHAP) with a view to their appraisal makes it impossible for a forecast to be made about compliance with them.
- **EXPENDITURE RULE:** the PEF should be expanded to include the necessary information required to be able to assess compliance with the expenditure rule in the period covered by the EFP (2015 and 2016). The Organic Law 2/2012 on budget stability and financial sustainability (LOEPSF) and the report of the Council of Ministers' Decision (ACM) of 27th June 2014 state that whenever a public administration has an EFP, the growth in eligible expenditure to be included in the calculation has to be in line with the path set out for it in that EFP.

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 believes that compliance with the budget stability target set for 2015 at -0.7% of GDP is possible. 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 1.1% of its GDP, with the result that it failed to comply with the budget stability target set at -1% of GDP.

The region indicates that it does not believe there is any need to adopt any specific measures either for revenue or for expenditure in order to reach the budget stability target. Nevertheless, it does highlight in its plan one-off **MEASURES** representing 0.2% of GDP (€127 million). A third of the measures are designed to increase its revenue and all the others to reduce its expenditure.

The **one-off measures** arise primarily from the application of Royal Decree-Law 6/2015 of 14th May, whereby the State Administration (AGE) grants the Castilla y León Region —once it has joined the Financing Fund Financial Facility— subsidies totalling €74 million (0.13% of GDP)¹ to finance its investments in 2015.

The **one-off expenditure measures** included in the EFP represent 0.07% of GDP. If the reinstatement in 2015 of the 2012 extraordinary public employee salary payment is excluded, the expenditure measures would total €46 million because of the saving on interest payments stemming from Royal Decree-Law 17/2014 and because of the non-replacement of public employees reaching retirement.

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 0.5% of GDP (€303 million), of which 0.13% will come from funds received through the State Administration (AGE). Nevertheless, some uncertainty is perceived surrounding the full materialisation at year-end of some revenue items, which could lead to a slight deviation. The uncertainties are concentrated in capital transfers, the

¹ Measure entitled "Payment of negative settlements" 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).

Tax on Asset Transfers and Documented Legal Acts (ITPyAJD), and the disposal of real estate assets.

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 0.3% of GDP (€144 million more than in 2014). Nevertheless, the budget implementation data to date show an increase in the non-financial expenditure compared to the previous year that is higher than expected by the region.

Lastly, within the national accounting adjustments, an adjustment is forecast for the expense recorded in account 413/409 representing 0.8% of GDP. This is not consistent with year-end figures from previous years.

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.

Some of the one-off **MEASURES** from 2015 are reverted in 2016 and are valued at -0.1% of GDP.

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 (€335 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 0.1% of the region's GDP (€32 million).

2. Debt target

According to data published by Banco de España, Castilla y León's total debt at 31st December 2014 was €9.35 billion, equivalent to 17.3% 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 16.4% of GDP. However, MINHAP has since recalculated Castilla y León's target to incorporate the exceptions envisaged by the ACM, raising the target to a debt/GDP ratio of 17.1% of GDP. That means the region's debt at year-end 2014 was €113 million higher than the revised target for the region in that period. Consequently, Castilla y León 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 €113 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 17% 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 be around €10.59 million, 18.9% of its GDP, and at year-end 2016 €10.84 million, 18.7% 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 the Castilla y León Region in 2014 was -2.4%, 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			X
4. Non-implementation	-	-	-
5. All other adjustments	X		