



Independent Authority
for Fiscal Responsibility

Report 23/18

10 May 2018

Report on the initial budgets of the Local Governments: 2018

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

The Independent Authority for Fiscal Responsibility (AIReF) is required to continuously monitor the budgetary cycle, assessing the budgets of the Public Administrations (PAs) from the initial preparation and approval stages. Specifically, this early assessment allows the various administrations to adjust their revenue and expenditure estimates and expenditure commitments throughout the processing and execution of the budgets monitored by AIReF until year-end.

In this report, AIReF has assessed the 2018 budgets of the Local Governments (LGs), and has analysed the changes between these and the budgetary lines previously reported on in December, as established by AIReF's Organic Law and Statute.

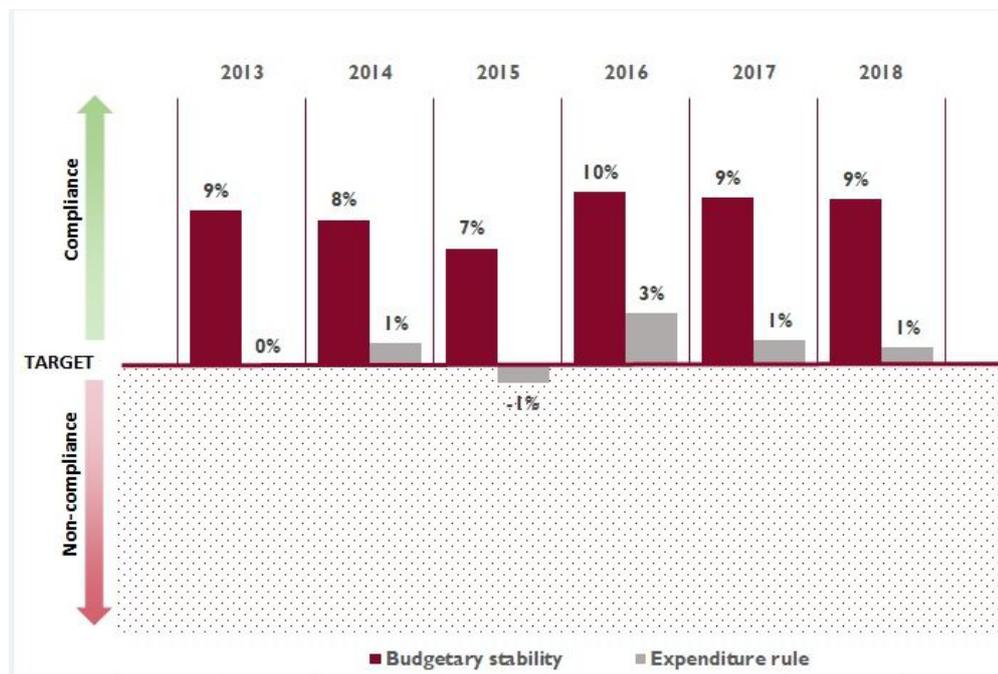
The LG sub-sector is characterised by a very high and heterogeneous number of entities, therefore, as usual, AIReF has analysed their budgets in three areas or levels: aggregate behaviour of the sub-sector, the LGs with the highest population and budget and the LGs with the greatest sustainability problems.

In addition, this Report now includes an initial introduction to the actions of the financial supervisory agencies of the LGs individually analysed, in order to become aware of the possible problems surrounding the exercise of their powers in terms of monitoring compliance with the fiscal rules in the current regulatory context.

Local Government Sub-sector

AIReF considers it to be feasible that, in 2018, the LG sub-sector will achieve a surplus similar to that recorded in 2017 (0.6% GDP), with an increase in revenue and expenditure of around 2%, as it is expected that the revenue and expenditure measures known to date will significantly alter the path recorded in recent years.

Stable revenue growth not very much dependent on the economic cycle, the expenditure trends closely linked to population variables and the role of local financial controllers as guarantors of the fiscal rules are the main guarantee of a surplus situation that is maintained over time.

COMPLIANCE WITH STABILITY TARGET AND EXPENDITURE RULE 2013-2017 SITUATION
 AND 2018 FORECAST


Note: Positive (compliance) or negative margin (non-compliance) on the annual budgetary stability target and expenditure rule as a percentage of non-financial revenue and maximum computable expenditure, respectively.

Source: MINHAC and AIRcF estimates

Since 2013 the sub-sector has maintained a surplus of around 9% of its revenue, which has allowed it to comply with the expenditure rule, except for the year 2015. For 2018, a surplus of 0.6% GDP would enable compliance with the expenditure rule and a level of indebtedness of 2.2% GDP to be reached, 0.5% below the 2018 target of 2.7%.

Large Local Governments

As on previous occasions, this report includes an individual assessment of the large local corporations: 16 City Councils with a population of over 250,000 inhabitants and 3 Provincial Councils, 1 Municipal Council and 1 Island Council, which are those with the largest budgets and greatest population concentration. These 21 large corporations plan to reach a surplus of around \$2,179 million in 2018, nearly 300 million more than in 2017.

Despite this, for the City Councils of Madrid, Palma de Mallorca and, to a lesser extent, Barcelona, Bilbao and Valencia, AIRcF appreciates a risk of non-compliance with the budgetary stability target that, with the exception of the City Council of Barcelona, is the target committed to in the Economic-Financial Plans (EFPs) and/or the Adjustment Plans (AP) in force.

However, in the context of the large LGs the risk of non-compliance with the stability target is not generally rooted in the possibility of obtaining a negative budgetary balance, but rather in the difficulty of achieving the surplus, necessary in order to comply with the expenditure

rule, which shall be set with the approval of a EFP and/or AP. The main tensions are appreciated within the scope of the expenditure rule and therefore, from the point of view of the early correction of possible deviations, there is no justification for eliminating the obligation to communicate the Local Financial Controller's report on compliance with the expenditure rule in the initial stages of the budgetary cycle (main budgetary lines and initial budgets) imposed with ORDER HAP 2082/2014.

Local Governments with the greatest sustainability problems

In the rest of the sub-sector, other than the 21 large LGs selected, AIRcF estimates that, in aggregate terms, they will continue to contribute to the local sub-sector surplus in 2018 in a stable manner. However, as indicated in previous reports, within this overall net positive situation there are some city councils with clear sustainability problems in the medium and long term, reflected in debt-to-GDP ratios above 200% of their current income, remnants of persistent negative cash-flows and average payment periods much longer than the 30 days established in the legislation in force. In this Report AIRcF calibrates the assessment of the debt situation of the 18 LGs with over 20,000 inhabitants with consolidated medium-term sustainability problems, selected in the previous Report, by incorporating the data available on the budgetary result achieved in 2016 and 2017, and estimated for 2018, as an indicator of the capacity and speed of return to a sustainable situation in the medium or long term (debt-to-DGP ratio of below 75% of their current income). After considering these data, AIRcF has seen an improvement in the situation of the City Councils of Alcorcón and San Andrés de Los Reyes, which, assuming that their behaviour over the last few years has been consolidated, has led to a decline in the level of risk, from high to moderate. Conversely, AIRcF has lowered the rating for the City Councils of Algeciras, Aranjuez and Isla Cristina.

In this report AIRcF makes a number of recommendations to the Ministry of Finance (MINHAC):

- To promote the regulatory changes required to specify the content and extent of the financial supervisory competences of the LGs, as well as the corrective mechanisms necessary for these agencies to apply to these agencies in the event that these powers are not exercised in accordance with the regulations.
- To amend the Order by which they implement the information provision obligations established in the Organic Law on Budgetary Stability and Financial Sustainability (LOEPySF), setting dates for the periodic updating of the data published, beyond that originally established, in such a way as to reflect the latest situation in the economic and financial information of the LGs.
- To convene and lead, for the City Councils of Jerez de la Frontera, Parla and Jaén, a committee of experts, attended by the protecting Autonomous Region, where appropriate, to analyse the reasons for which these City Councils have a critical level of sustainability risk and propose the most appropriate solutions.

In addition, in this the AIRcF formulates a number of recommendations to the LGs analysed individually, as well as their protection agencies, aimed at ensuring compliance with the fiscal rules (City Councils of Barcelona, Bilbao, Madrid, Palma de Mallorca and Valencia) and improve their sustainability (City Councils of Algeciras, La Linea de la Concepcion, Aranjuez, Totana, Navalcarnero, Isla Cristina, Ayamonte, Alcorcon, Valdemoro, Sanlúcar de Barrameda, San Andrés del Rabanedo and Almonte).

1. Purpose of the report, methodology and scope limitations

1.1. Purpose of the report and scope limitations

The purpose of this report is to assess the likelihood of the 2018 initial budgets of the Local Governments enabling compliance with the fiscal rules, in response to the changes observed in relation to the information analysed in the report on the main budgetary lines. This assessment was performed for the whole of the Local Government sub-sector (LG) and, on a differentiated basis, considering their budgetary weight and population affected, for the 21 largest LGs (the 16 city councils with a population of over 250,000 inhabitants and the 5 provincial councils or similar bodies, with the largest non-financial budgets) and the rest of the sub-sector (a detailed analysis of the LGs with the greatest medium-term sustainability problems).

When performing this assessment there were no significant scope limitations, except for the area of the expenditure rule. The sub-sector's budgets were analysed with the information of all the Local Corporations (LCs) provided by the Information Centre of the Ministry of Finance (MINHAC) and that of the corporations considered individually with the data sent by them and the MINHAC. However, the information requested on the expenditure rule for the sub-sector was not available. Nor was the information on the expenditure rule of the LGs individually analysed since Order HAP 2082/2014 removed the obligation to communicate the local financial controller's report on compliance with the expenditure rule in the initial stages of the budgetary cycle (the main budgetary lines and initial budgets).

AIRcF's forecasts for the sub-sector as a whole followed the methodology described in the Report on the Main Budgetary Lines of the 2018 LG Budgets published in December¹ taking into account the updated calculation of confidence intervals (as in the Regions) which is detailed in Box 1.

In turn, the evaluation of all the LGs considered individually has followed the same methodology described in the previous report with the consequent adjustments resulting from the new available information.

¹ [Report on the Main Budgetary Lines of the 2018 Local Corporation Budgets](#)

BOX 1. Updating the calculation of confidence intervals

Previous reports have explained the methodology followed for constructing confidence intervals for aggregates of the components or of determined balances of Public Administration (PA) sub-sectors. Small refinements have been made in addition to incorporating the corresponding data updates.

This method involves estimating a vector auto-regression model (VAR) that makes it possible to generate pathways or combinations of the estimated errors for each of the series by means of resampling techniques, from which the specific realisation of each can be inferred probabilistically, obtaining the corresponding confidence intervals.

Specifically, the algorithm used to obtain the confidence intervals consists of the following stages:

I. Specification and estimation of the VAR model, with quarterly data until the last available period. Macroeconomic and fiscal variables include: (i) Expenditure (of the sub-sector); (ii)

Revenues (of the sub/sector); (iii) Government debt-to-GDP ratio (of the sub-sector); (iv) real GDP; (v) GDP deflator and (vi) Ten-year Public Treasury bond yields. The series of revenue and expenditure in National Accounting terms come from the General Intervention Board of the State Administration (IGAE), the data relative to the GDP are taken from the National Statistics Institute (INE), while the interest levels are obtained from the Bank of Spain (BdE) database. The series are adjusted seasonally and taken as logarithms, except for interest rates and the debt-to-GDP ratio, which are taken as levels.

II. Projection of the forecast pathways for the previous endogenous variables considered

through Monte Carlo simulation.¹ Using the projected trajectories for the macroeconomic and fiscal variables and estimating the joint distribution of the VAR model perturbations, 15,000 probabilistic scenarios are constructed for each variable included in the model, estimating the corresponding balances as the difference between the simulated revenues and expenditure estimated in terms of GDP (similarly simulated).

¹ For more details on the methodology, see Cuerpo, C. and Ramos, W. (2015). "Spanish Public Debt Sustainability Analysis", Review of Public Economics, (4/2015)

2. Results of the assessment

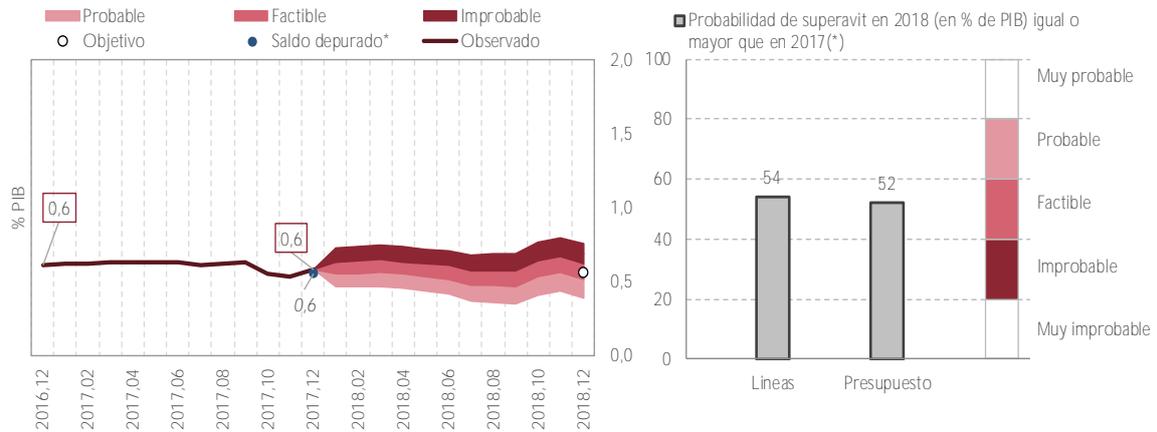
2.1. LG sub-sector

2.1.1. Stability target and expenditure rule

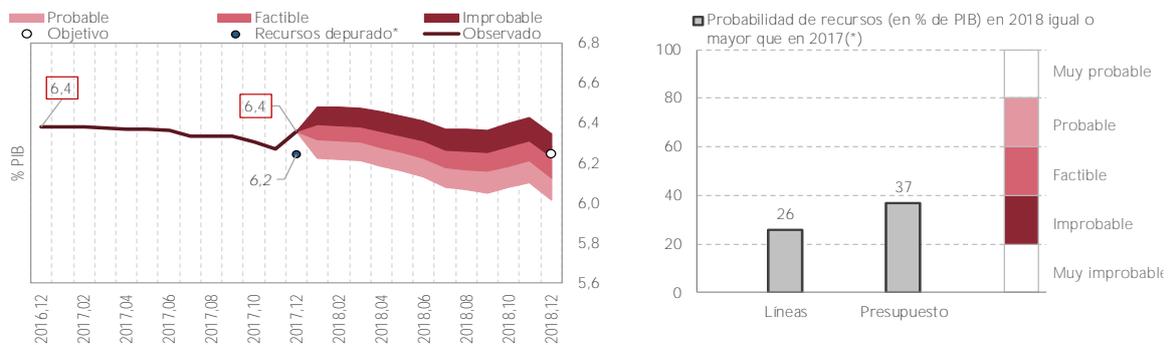
AIRcF considers it very likely that the LG sub-sector will comply with the budgetary stability target in 2018, as it is possible to obtain a surplus similar to that of 2017. AIRcF considers it feasible that, in 2018, the LG sub-sector could achieve a surplus of 0.6% GDP, similar to that of 2017, with an increase in revenue and expenditure of around 2%, in line with the average growth in recent years (in homogeneous terms) and below the increase in nominal GDP. See figure 1

AIRcF considers that the various measures taken, with impact in the year 2018, will not, on the whole, be sufficient to alter this average growth trend. Thus, for example, in terms of income, AIRcF expects that the new measure included in the 2018 draft General State Budget (GSB), by which the reference market value, which serves to determine cadastral values, is to be established on the basis of the prices reported by notaries public in real estate transactions, will have little impact in 2018, as it requires prior regulatory development. On the expenditure side, both the measures for wage increase and staff replacement agreed by the Government with the trade unions, with an impact of an increase in staff costs of around 3%, and the relaxation of the expenditure rule adopted in Royal Decree-Law 1/2018 have been taken into account, which allows the extension of the objective scope of financially sustainable investments and whose effect will be distributed between 2018 and 2019, with the estimated impact in 2018 standing at around 5% of the investments made in the previous year. These expenditure increases are expected to be diluted with the decrease in other expenditure items, in order to comply with the expenditure rule.

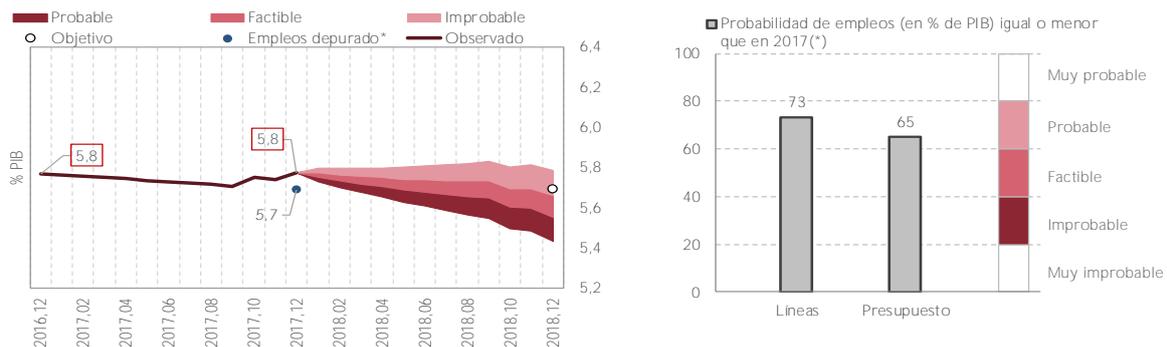
GRÁFICO 1. LG SUB-SECTOR FINANCING CAPACITY IN % GDP



LG SUB-SECTOR NON-FINANCIAL REVENUE IN % GDP



LG SUB-SECTOR NON-FINANCIAL EXPENDITURE IN % GDP

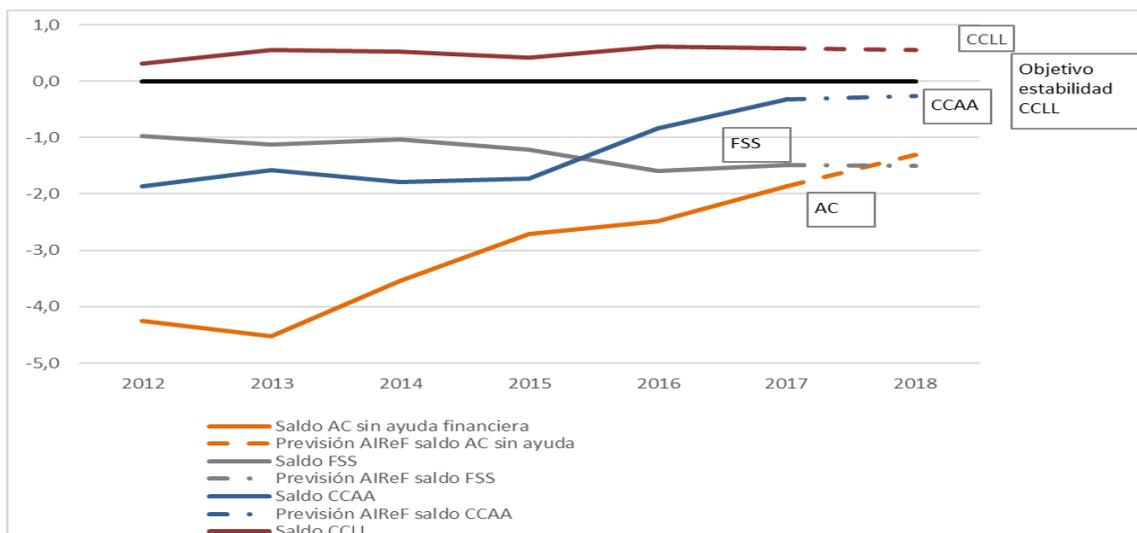


Note (*) In the figures above, the outcome that would have been achieved without the effect of the adjustment of previous years in the Provincial Councils as a result of the May 2017 Agreement of the Joint Committee of the Economic Agreement is represented by a blue dot in 2017. In addition, the probability that the balance, revenue and expenditure in 2018 are similar to those of 2017 is calculated by eliminating the effect of the adjustment, both in the Lines column and in the Budget column.

Source: MINHAC and AIReF's 2018 estimates .

This 2018 local surplus estimate is in line with the trend observed in the LG sub-sector since the entry into force of the current regulations on budgetary stability. Since 2012, the LG sub-sector has been the only sub-sector with repeated surpluses, consolidating a positive balance of around 0.6% GDP in recent years, as shown in Figure 2 below.

FIGURE 2. 2012-2017 EVOLUTION AND 2018 FORECAST OF NET LENDING/BORROWING (IN % GDP) BY SUB-SECTORS

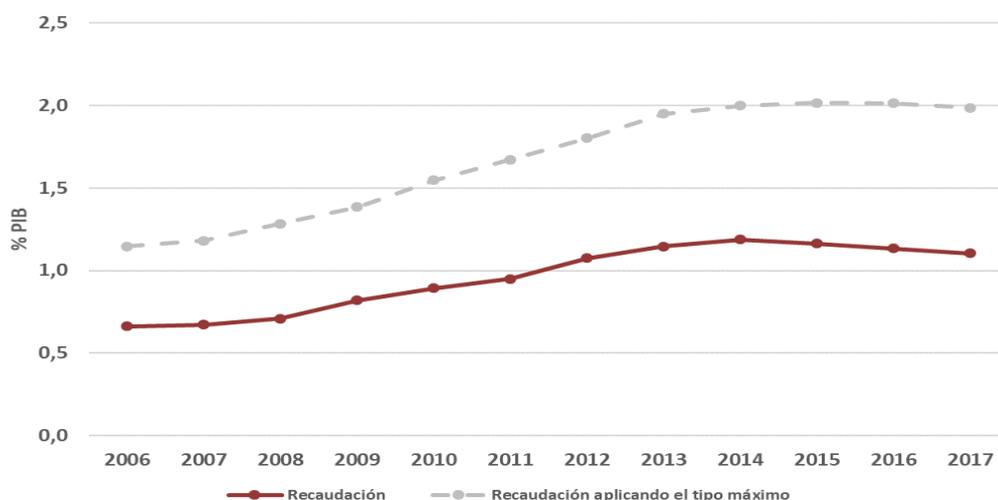


Source: MINHAC and AIReF estimates

The consolidated surplus of the local sub-sector is the result of the greater financial autonomy of the LGs compared to other administrations and the contained evolution of its expenditure. The consolidation of the local surplus is the result of both the stable growth of the sub-sector’s income, given the broad regulatory capacity of the LGs in local taxes, and the reduced social security expenditure of these administrations compared to other sub-sectors and its declining trend, as it is directly linked to the population, which has fallen in recent years. In addition, the role of the local financial controllers as guarantors of the fiscal rules has worked as a preventive mechanism for compliance with the stability regulations.

In terms of income, local taxes are not very sensitive to the economic cycle and the LGs have large leverages for adjusting tax collection. In the LGs cyclical income contributes 25% of its total revenues compared to 70% in the Regions, while the income provided by local taxes accounts for over 52%. This tax income is not very sensitive to the economic cycle and, in addition, the LGs have powerful leverages for adjusting tax collection, leverages that are especially relevant in its major source of income, Real Estate Tax (RET), as shown in Figure 3 which shows the gap between the maximum theoretical earnings from this tax in the case of application of the legal maximum (1.1) and the real earnings.

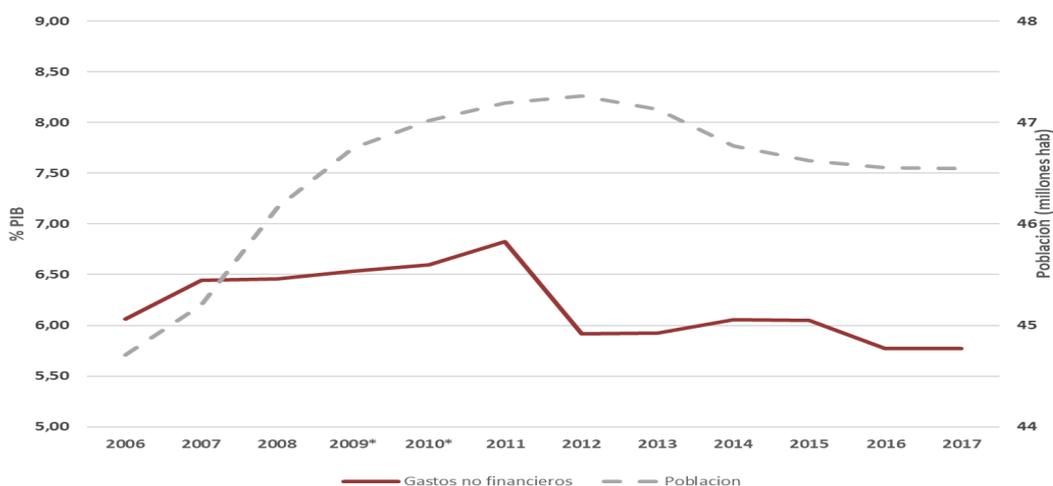
FIGURE 3. RET. REAL EARNINGS AND THEORETICAL MAXIMUM (IN % GDP)



Source: MINHAC and AIRcF estimates

In terms of expenditure, the LGs are not under significant pressure in the current context of declining population. Local public services are very closely related with the population, which has been declining since 2012. The strong population growth at the time of maximum economic growth pressured local public expenditure upwards. However, since 2012 we can observe a decrease in the population which has enabled the LGs to stabilise their expenditure and, thus, contribute towards generating a surplus. Figure 4 below shows the evolution of the population from 2006 to 2017 and the non-financial expenditure of the LGs in the same period. We can observe the population decline from 2012 as well as the stabilisation of local non-financial expenditure in the same period.

FIGURE 4. LG EVOLUTION 2006-2017 NON-FINANCIAL EXPENDITURE AND POPULATION (IN % GDP)



Source: MINHAC and INE

Data available from the 21 large LGs, representing nearly 25% of the national population and about 30% of the total local surplus, as well as those provided by the MINHAC, ensure the accuracy of AIRcF's forecasts. AIRcF has included an individual analysis of the 21 large LGs in its reports since 2016. Although since 2016 their contribution as a group to the overall local surplus has declined, they still have a representative weight of around 30% (see table 1), which allows us to extrapolate their behaviour to the LGs as a whole and estimate a surplus of around 0.6% GDP for 2018. Similarly, the information provided by the MINHAC Information Centre, that raises the updates supplied by the local financial controllers, with a high degree of representativeness (over 65% of the total), to the national total, is consistent with AIRcF's estimates.

TABLE 1. REPRESENTATIVENESS OF THE 21 LARGE CORPORATIONS ANALYSED IN THE FINANCING CAPACITY OF THE LG SUB-SECTOR

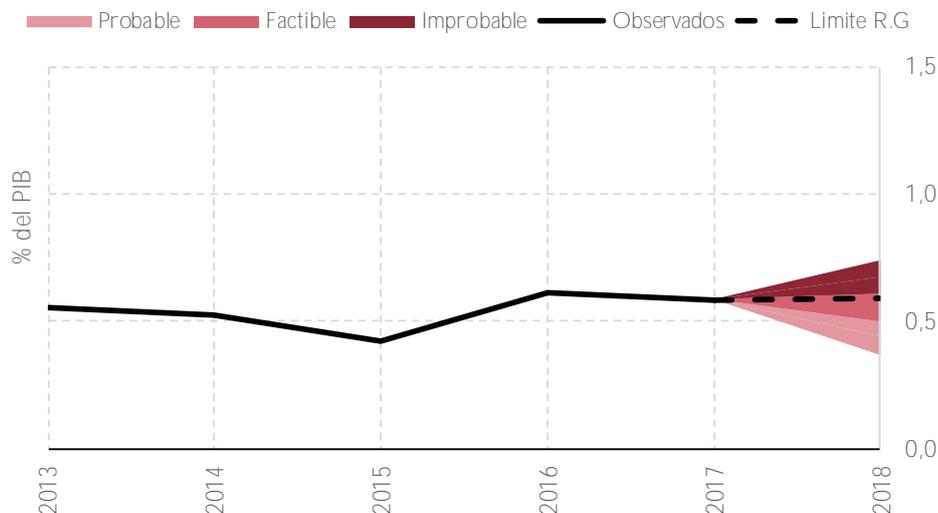
(en millones de €)

Ejercicio	Capacidad de Financiación		% de representatividad de los 21 entidades en total subsector
	Subsector CCLL ⁽¹⁾	21 entidades ⁽²⁾	
2013	5.689	2.113	37,2%
2014	5.472	2.166	39,6%
2015	4.581	1.915	41,8%
2016	6.847	2.125	31,0%
2017	6.812	1.918	28,2%
2018(estimación)	7.281	2.179	29,9%
PROMEDIO 2013-2017			35,5%
PROMEDIO 2016-2018			29,7%

Source: (1) 2013-2017 Data IGAE Publication "Operaciones no Financieras de Administración Local" (Local Administration non-Financial Operations). 2018 Data "Notificación del Reino de España a la Unión Europea de 27-3-2018" (Notification of the Kingdom of Spain to the European Union of 27-3-2018)
 (2) IGAE Publication "Cuentas trimestrales de las Administraciones Públicas (4T 2017)" (Quarterly accounts of the Public Administrations Q4 2017) and data provided by the LGs and MINHAC.

A surplus of 0.6% GDP would allow the LG sub-sector to comply with the expenditure rule at the end of 2018. AIRcF believes that the minimum financing capacity that would make it possible to comply with the expenditure rule would be around 0.6% GDP, as shown in Figure 5. However, this forecast is limited by the fact that the MINHAC has not provided the information requested on the expenditure rule for the sub-sector and that the uncertainty surrounding the amount of financially sustainable investments is joined this year by the approval of the expansion of the type of investments that can be classified as such and its possible implementation in two years, 2018 and 2019.

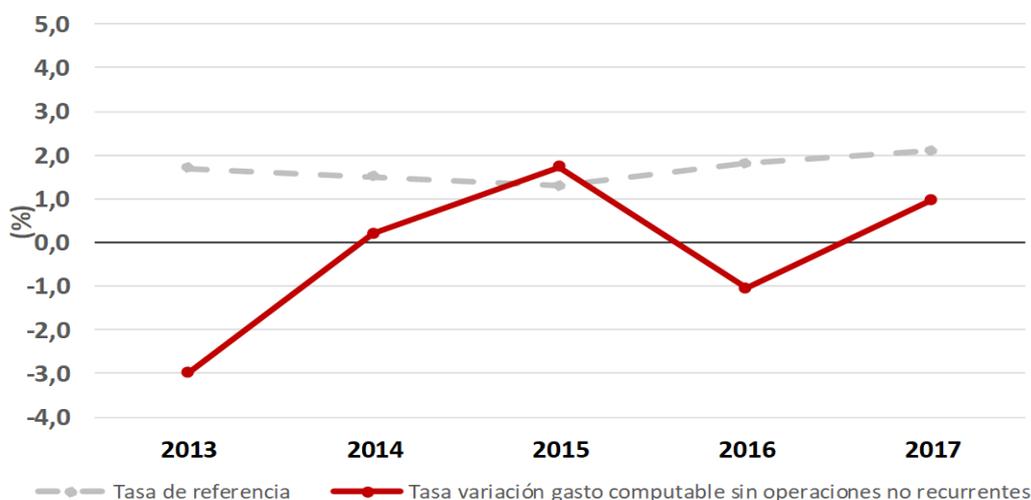
FIGURE 5. FINANCING CAPACITY OF THE LG SUB-SECTOR THAT ENABLES COMPLIANCE WITH THE EXPENDITURE RULE AT THE END OF 2018



Source: MINHAC and AIRcF estimates.

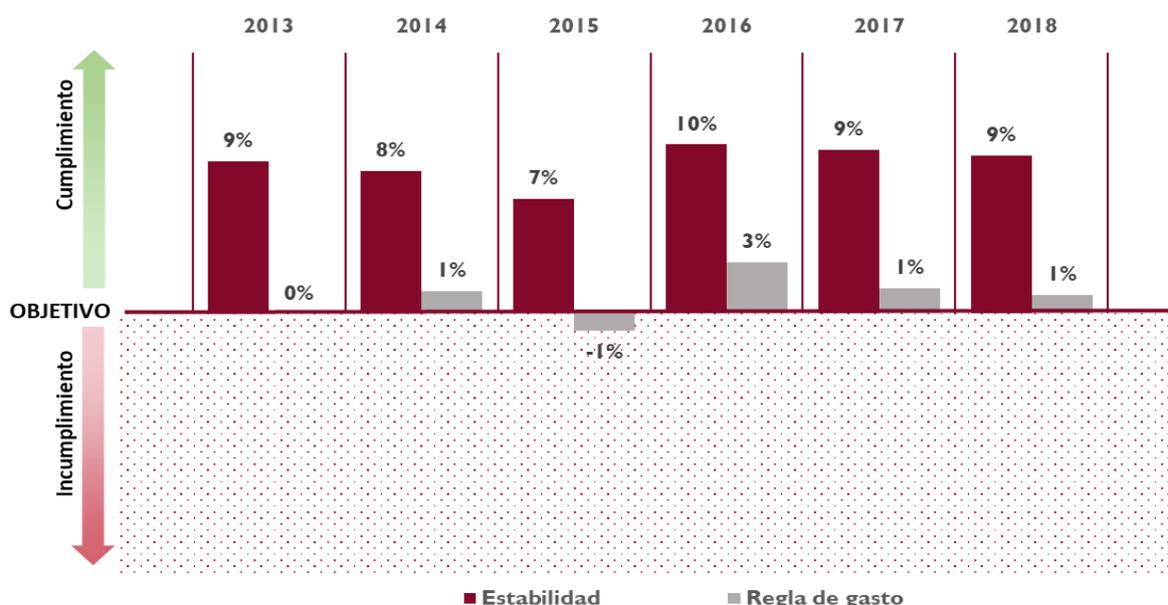
The lower pressure on the LGs' expenditure allowed them, as a whole, not to have exhausted the spending limit allowed by the expenditure rule, except for the year 2015. As shown in Figure 6, and as included in the Reports on compliance with the stability target, expenditure rule and debt limit published by the MINHAC in April and October of each year in accordance with the provisions of article 17 of the Organic Law on Budgetary Stability and Financial Sustainability (LOEPySF in the Spanish acronym), except for the year 2015 and by a narrow margin, the level of computable expenditure of the LGs was lower than that allowed by the expenditure rule, which has resulted in the rate of change of the computable expenditure being recurrently lower than the reference rate.

FIGURE 6. LGS. EXPENDITURE RULE REFERENCE RATE AND REAL RATE OF CHANGE 2013-2017



There is a clear separation between the application of the expenditure rule and the stability target, which is set on a yearly basis in the budgetary balance. Since the entry into force of the LOEPySF the over-compliance with the stability target obtained by the LG sub-sector has also enabled compliance with the expenditure rule, with the exception of 2015 when there was non-compliance by a small margin (See Figure 7). Compliance with both rules requires each year to be settled with a surplus that is not taken into consideration in the Council of Ministers' Agreement for establishing the annual targets, in spite of the fact that article 11 of the LOEPySF, in regulating the application of the stability target, notes that the LGs must maintain a position of balance or surplus. The last notification sent by the Kingdom of Spain to the European Union of 27 March 2018² recognised that General Government (GG) compliance features a local surplus estimated at over 7 billion euros, which deepens the need to make the annual targets set consistent with the expected results.

FIGURE 7: COMPLIANCE WITH STABILITY TARGET AND EXPENDITURE RULE 2013-2017 SITUATION AND 2018 FORECAST



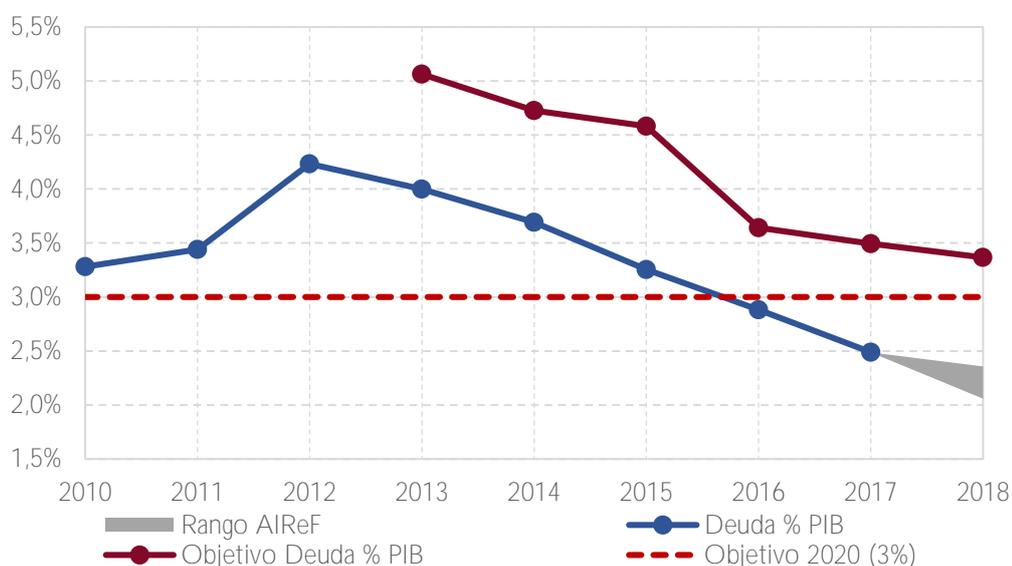
Note: Positive (compliance) or negative margin (non-compliance) on the annual budgetary stability target and expenditure rule as a percentage of non-financial revenue and maximum computable expenditure, respectively.

Source: MINHAC and AIRcF estimates

² [Reporting of Government Deficits and Debt Levels of 27 March 2018](#)

AIReF estimates that in 2018 the LG sub-sector could reach a debt level of around 2.2% GDP, thus complying with the target of 2.7%. The LG sub-sector closed 2017 with a level of debt of 28,955 million euros, 10% lower than in 2016. AIReF estimates that the declining trend will continue. Therefore, if the local surplus were to be consolidated in 2018, the debt-to-GDP ratio could stand at 2.2% GDP at the end of this year. Figure 8 shows the evolution of the outstanding debt data observed (in % GDP) from 2010 to 2017 as well as AIReF's closing forecast for 2018 on the assumption that the surplus obtained would be allocated in its entirety to the repayment of debt. The figure also includes the relative position with respect to the agreed targets for the years 2013 to 2018 corrected by the funds derived from extraordinary financing mechanisms.

GRAPH 8. LG SUB-SECTOR DEBT (% GDP)

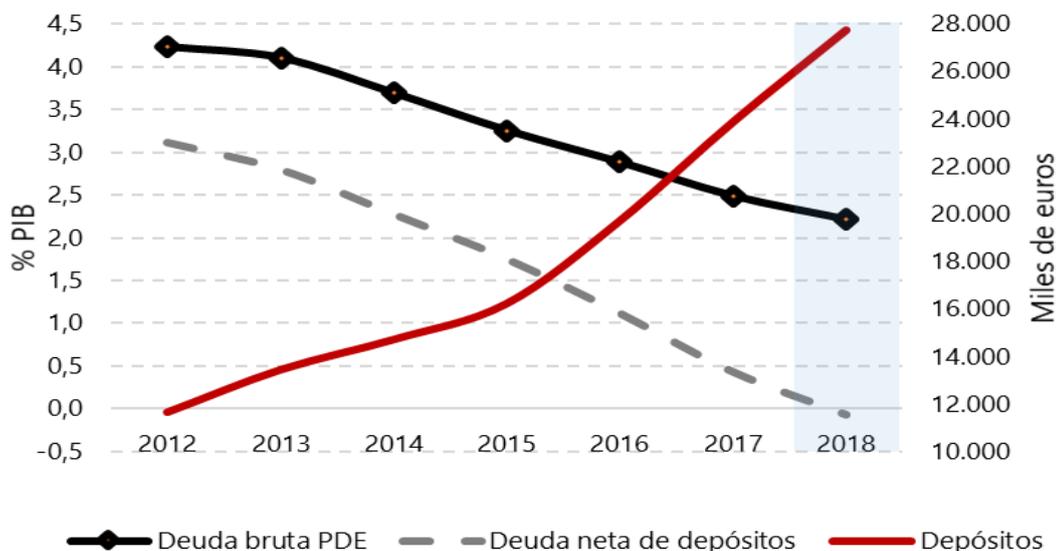


Note: The approved 2013-2018 targets have been incorporated into the outstanding debt in each year of the extraordinary financing mechanisms from the State.

Source: Bank of Spain and AIReF estimates

Given the low level of local debt, most of the surplus obtained is allocated to increasing the bank deposits of the LGs. Since the end of 2012, the primary balances of the LGs have largely been immobilised in bank deposits, having almost doubled in terms of GDP and standing at 24,000 million euros at the end of 2017. Thus, the net liquid financial assets debt of the LGs has fallen to 0.5% GDP and is estimated to be close to 0% and even negative in 2018 (see Figure 9).

FIGURE 9. LGS. EVOLUTION OF DEBT-TO-GDP RATIO, FINANCIAL ASSETS AND NET FINANCIAL ASSETS DEBT (IN % GDP)



Source: Bank of Spain and AIRcF estimates

2.2. Individual analysis of the 21 large LGs

As in previous reports, this report includes the individual assessment of the 16 city councils with a population of over 250,000 inhabitants, as well as of the 5 provincial councils or similar bodies with a large non-financial budget. The entities analysed represent almost 25% of the total population, and in recent years have had a weight in the sub-sector's surplus of around 30%. According to the LOEPySF the purpose of this report is to analyse the degree of compliance with the deficit and debt targets (not the expenditure rule) of the initial budgets for 2018, starting from the end of 2017. In turn, AIRcF's Statute requires that the report covers the variations identified in the documentation received for the previous report on the main budgetary lines of the LG budgets, issued in December.

AIRcF's analysis is based on the information provided by the LGs and by the MINHAC Information Centre. All the LGs subject to assessment have complied with their duty to cooperate with AIRcF in good time and in the proper manner, with the exception of the Council of Mallorca which submitted the information with a delay of over one month and a half beyond the period granted.

The largest variations with respect to the information of the main budgetary lines for 2018 occurred as a result of the closing data for 2017, the approval of the 2018 budgets of most of these LGs and, in the case of the City Council of Madrid, the approval of an Economic Financial Plan (EFP). In the report on the main budgetary lines for 2018, the 2017 closing forecast given by the LGs was based on the execution of the second quarter, resulting in many variations with respect to the settlement data reported by the same. In turn, the General Intervention Board of the State Administration (IGAE)

published the quarterly accounts of the PAs³ corresponding to the fourth quarter, which detailed the 2017 closure of many of the city councils that make up this group. In addition, the 2018 forecasts were amended as a result of the new approved budgets. On the other hand, the MINHAC definitively adopted the EFP for the City Council of Madrid for 2017 and 2018 which affects both the result of Madrid, as well as the aggregate of these LGs given its relative weight.

The 21 large corporations plan to increase their surplus by 14% in 2018, much higher than the 3.1% increase envisaged in the main budgetary lines, motivated both by the better performance at the end of 2017 and the improvement of the 2018 budgetary forecasts. These forecasts are based on:

- The analysis of the end of 2017, as a starting point for 2018 budgeting, in which the aggregate surplus of these 21 LCs recorded a decrease close to 10% with respect to 2016, much lower than that expected in the main budgetary lines (26%). As can be seen in Table 2, the aggregate of the 21 large LGs contributed to the 0.5% reduction in the LG sub-sector's surplus (which reduced it by 9.8%), while in the rest the surplus increases by 3.7%. However, this positive variance is significantly affected by the increase in the net income of the Provincial Councils as a result of the Agreement of the Joint Committee of the Economic Agreement between the State, the Autonomous Region of the Basque Country and the Provincial Councils of May 2017, for adjustments of previous years. Adjusting for this effect, the surplus of this group would be reduced by 1% and the whole of the sub-sector by 4%.
- The analysis of the initial budgets for 2018, which forecasts a surplus increase of close to 14% with respect to 2017. In the case of the City Council of Madrid, the surplus growth forecasted for 2018 is 10% (the main budgetary lines expected a growth of 16%, which results of estimating a closure of 2017 over 200 million lower than that committed to in the EFP). The remaining 15 city councils expect a decrease in the surplus of 8%, whereas in the main budgetary lines this variation was 5%. The aggregate of the Provincial Councils greatly improves with respect to the main budgetary lines, as they forecast doubling the surplus in 2017 (the main budgetary lines forecasted a fall of 29%). The recognition of the construction, by the Council of Mallorca, of the Palma-Manacor road through shadow tolls amounting 108 million euros as a large investment in 2017 greatly affected the behaviour of the Provincial Councils and Councils. In addition, it should be borne in mind that the behaviour of this group is substantially influenced by the time lag that occurs between the time that funds are received (primarily transfers from the State) and the final expenditure to which they are applied, which tends to depend on other administrations (usually the city councils of the province).

³[Quarterly Accounts of the Public Administrations \(fourth quarter 2017\)](#)

TABLE 2. VARIATION OF THE AGGREGATE SURPLUS OF THE LARGE LGs (2017 AND 2018)

Ayuntamientos de más de 250.000 habitantes Diputaciones, consejos y cabildos de mayor presupuesto					
Capacidad (+) o necesidad(-) de financiación					
Ayuntamiento	Importes (millones €)		% sobre ingresos no financieros		
	2017	2018(Est)	2017	2018	Variación 2018 - 2017
Alicante/Alacant	50	29	18,0	11,9	-6,1
Barcelona	46	24	1,6	0,8	-0,8
Bilbao	-39	3	-7,2	0,5	7,7
Córdoba	27	27	9,2	9,0	-0,2
Gijón/Xixón	1	25	0,6	10,5	9,9
Hospitalet de Llobregat (L')	30	30	12,2	12,2	0,0
Madrid	1.099	1.212	21,5	25,8	4,3
Málaga	59	98	9,2	16,1	6,9
Murcia	24	43	6,3	11,6	5,3
Palma	36	13	8,8	3,1	-5,6
Palmas de Gran Canaria (Las)	68	18	17,3	4,4	-12,9
Sevilla	113	81	13,1	9,1	-3,9
València	94	131	11,0	15,9	4,9
Valladolid	21	15	7,7	5,3	-2,3
Vigo	16	3	6,5	1,1	-5,5
Zaragoza	76	32	10,2	4,4	-5,8
Cabildo Insular de Tenerife	70	21	9,3	2,2	-7,1
Consejo Insular de Mallorca	-70	28	-18,0	6,3	24,4
Diputación Prov. de Barcelona	42	228	5,2	28,9	23,7
Diputación Prov. de Sevilla	89	102	25,3	30,0	4,7
Diputación Prov. de Valencia	66	15	13,2	3,3	-9,9
Agregado 21 entidades	1.918	2.179	11,2	12,9	1,7
Resto CCLL	4.894				
Total Subsector CCLL	6.812				
Madrid	1.099	1.212	21,5	25,8	4,3
Resto 15 ayuntamientos	622	572	6,7	6,2	-0,5
Diputaciones y cabildos	196	395	7,0	13,3	6,2

Source: Data provided by the LGs and MINHAC.

AIReF has conducted its assessment with the information submitted by the LGs and the MINHAC Information Center, as well as information on the existence of EFPs and Adjustment Plans (APs) linked to extraordinary financing mechanisms, given that they involve fiscal commitments other than the general targets set. In accordance with the current regulations, the EFPs or APs set the targets for the local corporation and non-compliance may give rise to the application of coercive measures, as established in Articles 25 and 26 of the LOEPySF. It is for this reason that, in all reports, AIReF uses the commitments made in the EFPs and APs as the targets for these corporations. In this sense, it is relevant to the analysis taking into account that the City Councils of Alicante, Barcelona, Malaga, Palma de Mallorca, Zaragoza and the Provincial Council of Valencia have EFPs with validity ending in 2017. In turn, the City Councils of Bilbao, Madrid and Murcia have EFPs with validity in 2017 and 2018. In addition, Alicante, Cordoba, Malaga, Palma de Mallorca and Valencia have an Adjustment Plan with surplus and/or debt commitments for 2017 and 2018 (in the case of the last three).

Of the 21 LGs analysed, AIReF appreciates high risk of non-compliance with the 2018 stability target in the city councils of Madrid and Palma de Mallorca and moderate risk in Barcelona, Bilbao and Valencia. With the new data on the 2018 budget the

situation observed in the report on the main budgetary lines of high risk of non-compliance with the stability target in the City Council of Palma de Mallorca is maintained. The moderate risk status of the City Councils of Barcelona and Bilbao is also maintained. The high-risk rating improves in the case of the City Council of Valencia and worsens for the City Council of Madrid, since the budgetary balance target was considered for the risk assessment in the main budgetary lines, as there was no EFP. The City Councils of Madrid and Bilbao, with 2017-2018 EFPs, have failed to comply with the commitments for 2017. The City Council of Barcelona, after successive amendments to the EFP for non-compliance with the previous versions, has failed to comply with the surplus commitment for 2017 (the last year of the EFP in force) and has moderate risk of non-compliance with the general balance target in 2018.

In all of these entities at risk of non-compliance, the 2018 stability target is set in a plan, except in the case of the City Council of Barcelona. In December 2017 the City Council of Madrid agreed upon a 2017-2018 EFP with its financial supervisory body (the MINHAC) due to non-compliance with the expenditure rule in 2016, although it failed to comply with this rule in 2015 by an insignificant amount (17 million euros) in relation to the volume of its budget. The EFP envisaged the commitment of maintaining surpluses of over 1.2 billion euros annually for these years. In relation to the expenditure rule, given that the initial non-compliance originated in 2015, according to the interpretation of MINHAC in the EFP it would have been able to consolidate the excess of that year adjusted to 2017 by the reference rates, i.e. 17.6 million euros. However, since 2016 the EFP approved has enabled it to consolidate an amount in excess of 100 million euros. Due to non-compliance with the 2015 expenditure rule, the City Council of Palma de Mallorca approved an EFP with commitments up to 2017, which have been complied with. However, it also has an AP with commitments until 2022 that it failed to comply with in 2017 and there is high risk of non-compliance for 2018. The City Council of Valencia has an AP with surplus commitments until 2022 that it has failed to comply with in 2017. In this year it also failed to comply with the expenditure rule, therefore it is pending approval of an EFP that must be consistent with the AP. AIR^cF estimates that there is moderate risk of non-compliance with the stability target of its AP in 2018, as there is no way of knowing the commitments contained in the EFP to be approved. In the case of the City Council of Bilbao, the Provincial Council of Vizcaya approved an EFP for 2017-2018 with a deficit target in the first year based on a provincial law that is inconsistent with the national legislation that prevents this practice. Despite this, the EFP was not complied with in 2017 as the year was settled with a larger deficit than that committed to, and there is a risk of non-compliance in 2018. Finally, for the City Council of Barcelona, the financial supervisory body of the Government of Catalonia has reported that the LG approved a preventive EFP for 2015-2016 against possible non-compliance with the 2015 expenditure rule, which it effectively failed to comply with and, for this reason, the preventive EFP was replaced by a definitive plan approved for 2016-2017, as the current legislation does not allow the replacement or amendment of these plans, given that this would make them meaningless and delay the application of the gradual approach of the Law with this procedure.

In addition to the City Council of Valencia as mentioned, the City Councils of Cordoba, Gijón and Las Palmas de Gran Canaria, as well as the Provincial Council of Barcelona and the Island Council of Mallorca have to approve a EFP that includes

commitments for 2018 due to non-compliance with the 2017 expenditure rule (the Island Council of Mallorca also failed to comply with the 2017 stability target).

According to the provisional closing data for 2017, the LGs listed have failed to comply with the 2017 targets and, therefore, must approve an EFP with commitments for 2018. The entities in situations of non-compliance as a result of the final closing data for 2017 will have to do the same. The 2018 targets of the corporations listed will have to be measured in accordance with the commitments of the EFPs that they have to approve.

The following tables show the stability target and expenditure rule at the end of 2017 and that estimated for 2018 for each LG, as well as AIRcF's main conclusions for each.

- Table 3 summarises the position of each of the LGs with respect to compliance with the stability target and expenditure rule at the end of 2017 and AIRcF's forecast of compliance with the stability target in the 2018 budget. Coloured cell borders are also used to indicate whether changes have occurred with respect to the Report on the main budgetary lines for 2018 (red border if it has gone from expected compliance to non-compliance and green border for the other way around). The debt ratio (DR) column includes the forecast at the end of 2018 and the coloured background indicates the debt range in which the DR falls (green if $DR < 75\%$, red if $DR > 110\%$ yellow for the rest).
- Table 4 summarises AIRcF's main conclusions with respect to the 2018 forecasts for each LC, as well as variations with respect to the main budgetary lines, if these are significant. It also details 2017 compliance with the stability target and expenditure rule. It was not possible to assess compliance with the debt target because the information provided by the LGs includes non-EDP debt (needed to determine their DR) and the targets of the EFP/AP are only set with the EDP debt. The situation of each LG regarding compliance with the fiscal rules both in the current year and past years is ranked by colours.
- For each of the 21 LCs analysed Table 5 details the 2017 and 2018 stability targets, as well as the net lending/borrowing obtained in 2017 and estimated by the LCs in 2018, according to what has been communicated to AIRcF. It also details the expenditure rule target (computable expenditure limit) and that obtained in the 2017 settlement data communicated. In the case of net lending/borrowing the table includes the percentage that it represents in the non-financial income of each LC, given that this balance is related to the size of the budget, in order to facilitate comparison between the LCs. On the other hand, in the case of the data settled in relation to the expenditure rule, the table also details the amount of computable expenditure per capita, as a result of the fact that local costs are estimated to be linked to the population.

TABLE 3. COMPARATIVE VIEW OF COMPLIANCE WITH THE STABILITY TARGET AND EXPENDITURE RULE IN THE 21 LARGE LGS (YEARS 2017 AND 2018)

CORPORACIONES LOCALES	PLAN ECONÓMICO FINANCIERO (PEF) y/o PLAN DE AJUSTE (PA) APROBADO Y EN VIGOR		Objetivo de Estabilidad (OE)		Regla de Gasto (RG)	Ratio de deuda (RD)
	PLAN ECONÓMICO FINANCIERO	PLAN DE AJUSTE	Cierre 2017	Previsión 2018	Cierre 2017	Previsión 2018
MADRID	No cumplió RG15 y RG16. Tras 3 PEF's aprobados por Pleno pero no por órgano de tutela, en Dic 17 se aprueba definitivamente PEF 17-18.		✗	✗	✗	(60%)
BARCELONA	PEF por incumplimiento RG15 aprobado para 15-16. Revisado por prev. incumpl. 16. Nuevo PEF 16-17.		✗	✓	✓	(30%)
VALENCIA		PA 2012 con compromisos superávit y deuda como mínimo hasta 2022	✗	pte.PEF	✗	(63%)
SEVILLA			✓	✓	✓	(34%)
ZARAGOZA	PEF por incumplimiento RG15 aprobado para 16-17		✓	✓	✓	(122%)
MÁLAGA	PEF por incumplimiento RG15 aprobado para 16-17	PA 2013 con compromisos para 2017 de superávit y hasta 2020 en deuda	✓	✓	✓	(73%)
MURCIA	PEF por incumplimiento OE y RG16 aprobado para 17-18		✓	✓	✓	(88%)
PALMA DE MALLORCA	PEF por incumplimiento RG15 aprobado para 16-17	PA 2012 con compromisos superávit y deuda como mínimo hasta 2022	✗	✗	✓	(63%)
LAS PALMAS DE GRAN CANARIA			✓	pte.PEF	✗	(0%)
BILBAO (*)	PEF aprobado por la Diputación Foral por aprobar el presupuesto 2017 con déficit, incumpliendo lo establecido en la LOEPSF. En vigor para 17-18.		✗	✓	✓	(0%)
ALICANTE	PEF por incumplimiento RG15 aprobado para 16-17	PA con compromisos de superávit y deuda para 2017	✓	✓	✓	(26%)
CÓRDOBA		Plan refinanciación de deuda 16 con compromisos superávit en 2017	✓	pte.PEF	✗	(65%)
VALLADOLID			✓	✓	✓	(39%)
VIGO			✓	✓	✓	(0%)
GUJÓN			✓	pte.PEF	✗	(42%)
L'HOSPITALET DE LLOBREGAT			✓	✓	✓	(33%)
DIP. BARCELONA			✓	pte.PEF	✗	(17%)
DIP. VALENCIA	PEF por incumplimiento RG15 aprobado para 16-17		✓	✓	✓	(28%)
DIP. SEVILLA			✓	✓	✓	(19%)
CABILDO INSULAR DE TENERIFE			✓	✓	✓	(27%)
CONSEJO INSULAR DE MALLORCA			✗	pte.PEF	✗	(32%)



Cumplimiento



Incumplimiento



(*) La medición de cumplimiento de objetivos se ha realizado de acuerdo con un PEF no ajustado a la LOEPSF



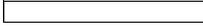
Mejora en la valoración AIReF: pasa de incumplimiento (Informe Líneas Fundamentales) a cumplimiento actual



Empeoramiento en la valoración AIReF: pasa de cumplimiento (Informe Líneas Fundamentales) a incumplimiento actual

Nota. Los colores de fondo en la columna de deuda representan el tramo de deuda de la RD: verde si es <75%, amarillo si está entre el 75% y el 110% y rojo si es > 75%

TABLE 4. AIREF'S MAIN CONCLUSIONS ON RISKS OF NON-COMPLIANCE WITH 2017 AND 2018 FISCAL RULES OF THE 21 LARGE LGS

	No han incumplido las reglas fiscales y sin riesgo de incumplimiento de OE en 2018	OE: Objetivo de estabilidad
	Incumplimientos ocasionales que han corregido o PEF que han cumplido. Sin riesgo de incumplimiento de OE en 2018	RG: Regla de gasto
	Pendientes de PEF (en plazo de aprobación) sin haber tenido antes otro PEF	RD: Ratio de deuda sobre ingresos corrientes consolidados
	Riesgo de incumplimiento de OE en 2018	PEF: Plan Económico Financiero
	Incumplimientos de PEF y riesgo de incumplimiento de OE en 2018	PA: Plan de ajuste

CORPORATIONS WITH NON-COMPLIANCE WITH EFP AND RISK OF NON-COMPLIANCE WITH STABILITY TARGET IN 2018

CORPORACIONES LOCALES	CONCLUSIONES AIREF SOBRE CUMPLIMIENTO DE REGLAS FISCALES 2017 y 2018
MADRID	<p>Respecto al informe realizado en diciembre de 2017 sobre las Líneas Fundamentales del Presupuesto de 2018 la mayor novedad se produce porque a finales de dicho año se produjo la aprobación con carácter definitivo por el MINHAF de un PEF 2017-2018 que ha fijado los objetivos de dichos años. Por ello, por lo que respecta al OE, en la información remitida por el Ayto., tanto en el cierre de 2017 como en la previsión para 2018, aunque no cumple dichos objetivos, incrementa en 2018 el superávit, con respecto al previsto en LF en un 19% (cerca de 200 M€).</p> <ul style="list-style-type: none"> · OE: El Ayuntamiento incumplió el objetivo de estabilidad de 2017 establecido en el PEF (1.203 M€) con un superávit de 1.099 M€. Igualmente prevé incumplir el superávit comprometido en el PEF de 2018 (1.257 M€) con un superávit de 1.212 M€ . · RG: Incumplió el compromiso de la RG de 2017 establecido en el PEF (límite gasto computable 3.332 M€) con un gasto computable de 3.375 M€. · RD: Cerró 2017 con una RD del 67%, previendo situarla a fin de 2018 en el 60%.
BARCELONA	<ul style="list-style-type: none"> · OE: El Ayuntamiento cerró el 2017 incumpliendo el OE establecido en el PEF (129 M€) con un superávit de 46 M€. Prevé cumplir el OE de 2018 con una capacidad de financiación de 24 M€. · RG: Cumplió el compromiso de la RG de 2017 prevista en el PEF (límite gasto computable 2.529 M€) con un gasto computable de 2.477 M€. · RD: Mantienen la deuda en una ratio sobre ingresos corrientes en torno al 30%.
BILBAO	<ul style="list-style-type: none"> · OE: En 2017 incumplió el déficit que le autorizó el PEF (-30M€) (en LF preveía cumplirlo) con un déficit de -39 M€. Prevé cumplir el OE para 2018 establecido en dicho PEF (2 M€) con un superávit de 3 M€. AIREF aprecia cierto riesgo de incumplimiento dado el escaso margen y la evolución de ingresos y gastos. · RG: Cumplió el objetivo de la RG de 2017 establecido en el PEF (gasto máximo 545 M€) (en LF preveía incumplirlo) con un gasto computable de 542 M€ · RD: Mantiene una ratio de deuda sobre ingresos corrientes muy próxima a 0.

CORPORATIONS WITH RISK OF NON-COMPLIANCE WITH STABILITY TARGET IN 2018

CORPORACIONES LOCALES	CONCLUSIONES AIREF SOBRE CUMPLIMIENTO DE REGLAS FISCALES 2017 y 2018
VALENCIA	<ul style="list-style-type: none"> · OE: El Ayuntamiento incumplió el OE previsto en el PA (125 M€) de 2017 con un superávit de 94 M€. Prevé el cumplimiento del superávit comprometido en el PA (125 M€) para 2018, con un superávit de 131 M€. Dado que incumplió la RG de 2017, la medición del objetivo habrá de realizarse de acuerdo a los compromisos del PEF que tiene que aprobar. · RG: Incumplió la RG de 2017 superando el gasto máximo (650 M€) con un gasto computable de 674 M€ (en LF la previsión de incumplimiento era inferior). · RD: En 2018 prevén una ratio de deuda del 63%, reduciendo en 10 puntos el de 2017. En 2017 deja de necesitar autorización para endeudarse dado que la RD es inferior al 75%.
PALMA DE MALLORCA	<ul style="list-style-type: none"> · OE: El Ayuntamiento cumplió los compromisos de superávit de 2017 establecidos en el PEF (25 M€). Sin embargo, no cumplió el compromiso del PA (37 M€) con un superávit de 36 M€. También prevé incumplir el OE para 2018 establecido en el PA (43 M€) con un superávit de 13 M€. · RG: Cumplió el objetivo de la RG de 2017 (gasto máximo 342 M€) establecido en el PEF con un gasto computable de 339 M€. · RD: Su RD es inferior al 75% previéndose que llegue al 63% a fin de 2018.

CORPORATIONS WITH EFPS PENDING (UNDER APPROVAL) WITHOUT HAVING HAD ANOTHER EFP PREVIOUSLY

CORPORACIONES LOCALES	CONCLUSIONES AIREF SOBRE CUMPLIMIENTO DE REGLAS FISCALES 2017 y 2018
LAS PALMAS DE GRAN CANARIA	<ul style="list-style-type: none"> · OE: Cumplió el OE de 2017 con un superávit de 68 M€. Prevé cumplimiento del de 2018 con un superávit de 18 M€, sin embargo por incumplir la RG del 2017, en la medición del ejercicio actual habrán de tenerse en cuenta los nuevos objetivos. · RG: Incumplió la RG de 2017 (gasto máximo 276 M€) con un gasto computable de 286 M€. · RD: La RD de 2017 fue del 13%, previendo la amortización total de la deuda viva a fin de 2018.
CÓRDOBA	<ul style="list-style-type: none"> · OE: El Ayuntamiento cumplió el compromiso de superávit (16 M€) al cierre de 2017 establecido en el plan de refinanciación de deuda que tiene suscrito, con un superávit de 27 M€. Prevé cumplir el OE de 2018 con un superávit de 27 M€, sin embargo, por incumplir la RG de 2017 en la medición del ejercicio actual habrán de tenerse en cuenta los nuevos objetivos. · RG: Incumplió la RG de 2017 (gasto máximo de 215 M€) con un gasto computable de 224 M€. · RD: Cerró 2017 con una RD del 74%, previendo reducirla hasta el 65% en 2018. Al bajar la RD del 75% deja de necesitar autorización del órgano de tutela para endeudarse.
GIJÓN	<ul style="list-style-type: none"> · OE: Ha cumplido el OE al cierre de 2017 con un superávit de 1 M€. Prevé cumplimiento del OE de 2018 con un superávit de 25 M€, sin embargo, por incumplir la RG de 2017 en la medición del ejercicio actual habrán de tenerse en cuenta los nuevos objetivos. · RG: Ha incumplido la RG al cierre de 2017 (gasto máximo 205 M€) con un gasto computable de 210 M€. · RD: Cerró el 2017 con una RD del 51%, previendo reducirla al 42% en 2018.
DIP. BARCELONA	<ul style="list-style-type: none"> · OE: Cumplen el OE al cierre de 2017 con un superávit de 42 M€. En 2018 prevén un superávit de 228 M€, sin embargo, la AIREF estima que ese superávit será del entorno de 65 M€. Por incumplir la RG de 2017 en la medición del ejercicio actual habrán de tenerse en cuenta los nuevos objetivos. · RG: Incumplen la RG al cierre de 2017 (gasto máximo 738 M€) con un gasto computable de 761 M€ (en LF preveían cumplirla aunque de forma ajustada). · RD: Cerraron el 2017 con una RD del 19%. En 2018 prevén alcanzar una RD del 17%.
CONSEJO INSULAR DE MALLORCA	<ul style="list-style-type: none"> · OE: Incumplió el OE de 2017 como consecuencia de la incorporación de inversiones realizadas mediante peaje en sombra por importe de 108 M€. Esta operación, no prevista en las Líneas Fundamentales, es el mayor motivo de variación con respecto a éstas en todos los objetivos de 2017. Se prevé cumplimiento del OE de 2018 con un superávit de 28 M€, si bien para su medición habrá de estar al objetivo que establezca en el PEF que debe aprobar por el incumplimiento de 2017. · RG: Incumplió la RG al cierre de 2017 con un exceso de gasto de 117 M€ motivado, fundamentalmente, por la operación indicada anteriormente. · RD: En 2016 tenía una RD del 32% que se ha visto incrementada en 2017 hasta el 36% como consecuencia de la operación indicada. En 2018 prevén que alcance los niveles de 2016.

CORPORATIONS WITH OCCASIONAL NON-COMPLIANCES THAT HAVE BEEN CORRECTED OR EFPS
THAT HAVE BEEN COMPLIED WITH. WITHOUT TRISK OF NON-COMPLIANCE WITH STABILITY
TARGET IN 2018

CORPORACIONES LOCALES	CONCLUSIONES AIREF SOBRE CUMPLIMIENTO DE REGLAS FISCALES 2017 y 2018
SEVILLA	<ul style="list-style-type: none"> · OE: Cumplió el OE de 2017 con superávit de 113 M€ y mejorando la previsión dada en LF. Se prevé el cumplimiento del OE de 2018 con un superávit de 81 M€. · RG: Cumplió la RG al cierre de 2017 con un gasto computable de 680 M€, sin superar el gasto máximo (697 M€). · RD: Desde 2009 mantiene una ratio de endeudamiento por debajo del 75% de los ingresos corrientes (para 2018 prevé que la RD sea del 34%).
ZARAGOZA	<ul style="list-style-type: none"> · OE: Cumplió el OE del PEF (55 M€) al cierre de 2017 (en LF preveía su incumplimiento) con un superávit de 76 M€. Prevé cumplimiento del OE 2018 (que es 0 por no tener PEF) con un superávit de 32 M€. · RG: Cumple el objetivo de RG previsto en el PEF (624 M€) al cierre de 2017 con un gasto computable de 592 M€. · RD: Mantiene una RD superior al 110%, al menos desde 2012. Esta ratio aumentó a partir de 2015 por la imputación del préstamo por la construcción del tranvía de la ciudad.
MÁLAGA	<ul style="list-style-type: none"> · OE: Cumplió el OE de 2017 previsto en el PEF (32 M€) y en el PA (35 M€) con un superávit de 59 M€. También prevé cumplimiento del OE 2018 con un superávit de 98 M€. · RG: Cumplió el compromiso de RG previsto en el PEF (516 M€) para 2017 con un gasto computable de 483 M€ · RD: LA RD de 2017 es del 77%, previendo reducirla en 2018 al 71% (si fuera así no precisaría autorización para endeudarse).
MURCIA	<ul style="list-style-type: none"> · OE: En 2017 cumplió el OE establecido en el PEF (22 M€) con un superávit de 24 M€. El Ayuntamiento prevé cumplir también el compromiso de superávit de 2018 del PEF (23 M€) con un superávit de 43 M€, datos del presupuesto prorrogado, si bien según previsiones de AIREF será de forma ajustada. · RG: Cumplió el objetivo de la RG de 2017 (336 M€) establecido en el PEF con un gasto computable de 331 M€. · RD: Con anterioridad a 2016 mantenía una ratio de deuda inferior al 75%. En 2016, por el préstamo imputado de la operación del tranvía, su ratio pasó al 100%. En 2017 se ha reducido al 95%, previendo que pase al 88% a fin de 2018.
ALICANTE	<ul style="list-style-type: none"> · OE: Cumplió el OE previsto en el PEF (25 M€) y en el PA (25 M€) al cierre de 2017 con un superávit de 50 M€. También prevé cumplimiento del OE de 2018 con un superávit de 29 M€. · RG: Cumplió el límite de gasto computable del PEF (gasto máximo 213 M€) con un gasto computable de 206 M€. · RD: En el cierre de 2017 la RD fue del 29%. La prevista al cierre de 2017 es del 26%.
DIP. VALENCIA	<ul style="list-style-type: none"> · OE: Cumplen el OE establecido en el PEF (39 M€) al cierre de 2017 con un superávit de 66 M€ (en LF preveían su incumplimiento). Prevé alcanzar el OE de 2018 con un superávit de 15 M€. · RG: Cumplen el objetivo de la RG previsto en el PEF (gasto máximo 348 M€) al cierre de 2017 con un gasto computable de 309 M€, si bien como consecuencia de la consolidación del exceso de gasto habido en 2015. · RD: La RD al final de 2017 es del 33%, previendo bajarla al 28% a fin de 2018.

CORPORATIONS THAT HAVE NOT FAILED TO COMPLY WITH FISCAL RULES AND WITHOUT RISK OF NON-COMPLIANCE WITH STABILITY TARGET IN 2018

CORPORACIONES LOCALES	CONCLUSIONES AIREF SOBRE CUMPLIMIENTO DE REGLAS FISCALES 2017 y 2018
VALLADOLID	<ul style="list-style-type: none"> · OE: El Ayuntamiento cumplió el OE al cierre de 2017 con un superávit de 21 M€. Prevé cumplir el OE de 2018 con un superávit de 15 M€. · RG: Cumplió la RG al cierre de 2017 (gasto máximo de 233 M€) con gasto computable de 228 M€. · RD: La RD del cierre de 2017 es del 35%, previendo incrementarla al cierre del 2018 hasta el 39%.
VIGO	<ul style="list-style-type: none"> · OE: El Ayuntamiento ha cumplido el OE de 2017 con un superávit de 16 M€. Se prevé el cumplimiento del OE de 2018 con un superávit de 3 M€. · RG: Ha cumplido la RG al cierre de 2017 (gasto máximo de 214 M€) con un gasto computable de 213 M€. · RD: No tiene ningún endeudamiento a fin de de 2017, situación que prevé mantener en 2018.
L'HOSPITALET DE LLOBREGAT	<ul style="list-style-type: none"> · OE: Cumplió el OE al cierre de 2017 con un superávit de 30 M€. También prevé cumplir el de 2018 en unas cifras similares a las de 2017. AIREF también estima que cumplirán aunque con un superávit del 30% del previsto por el Ayuntamiento. · RG: Cumplió la RG al cierre de 2017 ajustándose al gasto máximo de 186 M€. · RD: Mantiene una RD a fin de 2017 del 38%, previendo bajarla al 33% a fin de 2018.
DIP. SEVILLA	<ul style="list-style-type: none"> · OE: Cumple el OE de 2017 con un superávit de 89 M€. También prevé el cumplimiento del de 2018 con un superávit de 102 M€. · RG: Cumple la RG al cierre de 2017 ajustándose al gasto máximo de 219 M€. · RD: Cerró 2017 con una RD del 19% que tiene su origen, fundamentalmente, en un aval concedido. Prevé una RD similar para 2018 y ocasionada por el motivo anterior.
CABILDO INSULAR DE TENERIFE	<ul style="list-style-type: none"> · OE: Cumple el OE de 2017 con un superávit de 70 M€. También prevé el cumplimiento del de 2018 con un superávit de 21 M€. La estimación AIREF, sin embargo, se acerca más a la cifra de 2017. · RG: Cumplió la RG al cierre de 2017 (gasto máximo 363 M€) con un gasto computable de 322 M€, mientras que en LF preveían su incumplimiento. · RD: Su RD al cierre del 2017 es del 27%, previendo mantenerla en 2018.

TABLE 5. STABILITY TARGETS AND EXPENDITURE RULE AND THEIR IMPLEMENTATION IN 2017, AS WELL AS 2018 CLOSING STABILITY TARGET ESTIMATE IN THE 21 LARGE LGS

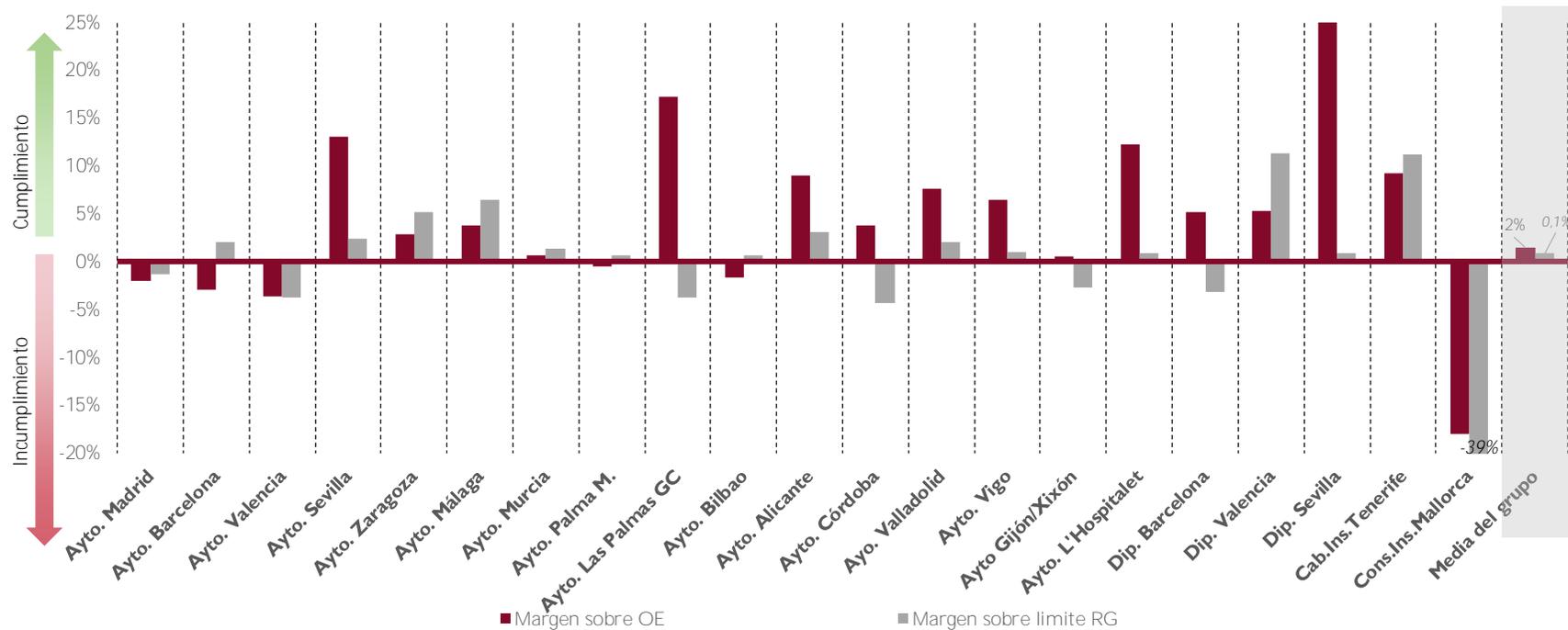
Entidad Local	Ejercicio 2017 (liquidación)						Ejercicio 2018 (presupuesto)		
	Estabilidad (Capacidad/Necesidad financiación)			Regla del gasto (gasto computable)			Estabilidad (Capacidad/Necesidad financiación)		
	Objetivo (millones €)	Liquidación (millones €)	% Liquidación s/Ingr. no financiero	límite máximo (millones €)	Liquidación (millones €)	Liquidación per cápita (€/habitante)	Objetivo (millones €)	Estimación cierre (millones €)	% est.cierre s/Ingr. no financiero
Ayto. Madrid	1.203	1.099	21,5%	3.332	3.375	1.060	1.257	1.212	25,8%
Ayto. Barcelona	129	46	1,6%	2.529	2.477	1.528	0	24	0,8%
Ayto. Valencia	125	94	11,0%	650	674	855	<i>Pdte. PEF</i>	131	15,9%
Ayto. Sevilla	0	113	13,1%	697	680	986	0	81	9,1%
Ayto. Zaragoza	55	76	10,2%	624	592	890	0	32	4,4%
Ayto. Málaga	35	59	9,2%	516	483	848	0	98	16,1%
Ayto. Murcia	22	24	6,3%	336	331	747	23	43	11,6%
Ayto. Palma M.	37	36	8,8%	342	339	835	43	13	3,1%
Ayto. Las Palmas GC	0	68	17,3%	276	286	758	<i>Pdte. PEF</i>	18	4,4%
Ayto. Bilbao	-30	-39	-7,2%	545	542	1.570	2	3	0,5%
Ayto. Alicante	25	50	18,0%	213	206	625	0	29	11,9%
Ayto. Córdoba	16	27	9,2%	215	224	687	<i>Pdte. PEF</i>	27	9,0%
Ayo. Valladolid	0	21	7,7%	233	228	762	0	15	5,3%
Ayto. Vigo	0	16	6,5%	214	213	727	0	3	1,1%
Ayto Gijón/Xixón	0	1	0,6%	205	210	772	<i>Pdte. PEF</i>	25	10,5%
Ayto. L'Hospitalet	0	30	12,2%	186	186	721	0	30	12,2%
Dip. Barcelona	0	42	5,2%	738	761	137	<i>Pdte. PEF</i>	228	28,9%
Dip. Valencia	39	66	13,2%	348	309	121	0	15	3,3%
Dip. Sevilla	0	89	25,3%	219	219	113	0	102	30,0%
Cab.Ins.Tenerife	0	70	9,3%	363	322	360	0	21	2,2%
Cons.Ins.Mallorca	0	-70	-18,0%	299	416	479	<i>Pdte. PEF</i>	28	6,3%

Figures 10 and 11 below show a comparative view of the 21 large LGs in relation to the implementation of the fiscal rules in 2017 and 2018. These graphs present their results in terms of margin on the respective target or rule and include the average performance of the group, which is highly influenced by the weight of the City Council of Madrid overall. The compliance or non-compliance with the stability target and the expenditure rule are shown in percentage terms of margin (excess or shortfall) on the target (the general target or that established in the approved EFP or AP) for each. In relation to the stability target this margin is calculated as a percentage of non-financial income and in relation to the expenditure rule it is calculated as a percentage of the expenditure limit that allows for compliance.

- For this group of large LGs Figure 10 presents a comparative view of compliance with the stability target and expenditure rule at the end of 2017.
- Figure 11 shows a comparative view of compliance with the 2018 stability target according to the information provided by the LGs on the budgets for the current year, as well as AIRcF's estimates. In the case of the LGs that require the approval of an EFP for failure to comply with the 2017 targets, compliance/non-compliance was measured using the targets of the EFP approved, if present and in force for 2018, or the general target (0) if they do not have an EFP.

According to AIRcF's estimates, the 2018 debt ratio is projected to be 47% of current income. Figure 12 shows the evolution of the debt limit (ratio to current income) from 2012 to 2017 and estimates for 2018. This group has made a significant effort towards reducing debt since the entry into force of the LOEPySF in 2012, until 2017, which on average has gone from 100% of the average current income to 51%. This trend is expected to continue this year, with the group's average debt ratio standing at around 47%.

GRAPH 10. 21 LARGE LGs. DEGREE OF COMPLIANCE WITH THE STABILITY TARGET AND EXPENDITURE RULE IN 2017

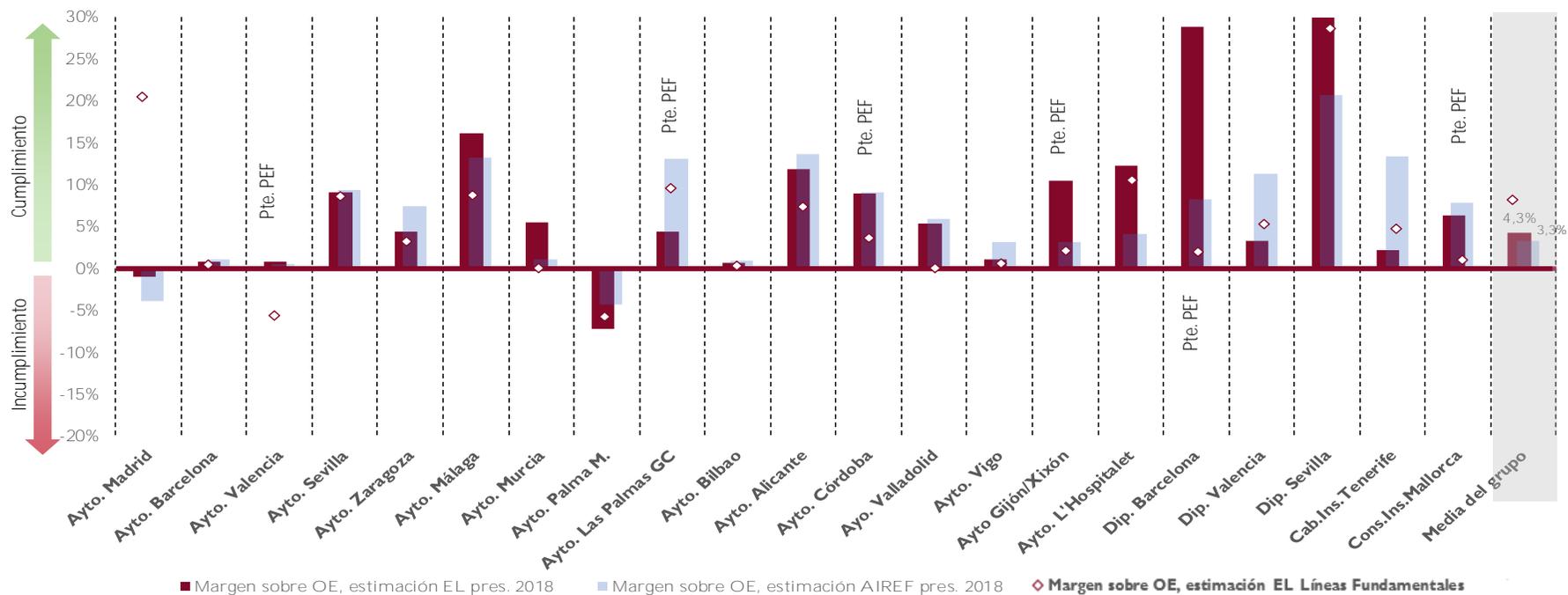


Note:

Margin on ST: Difference between net lending/borrowing of the end of 2017 and the target as a percentage of non-financial income.

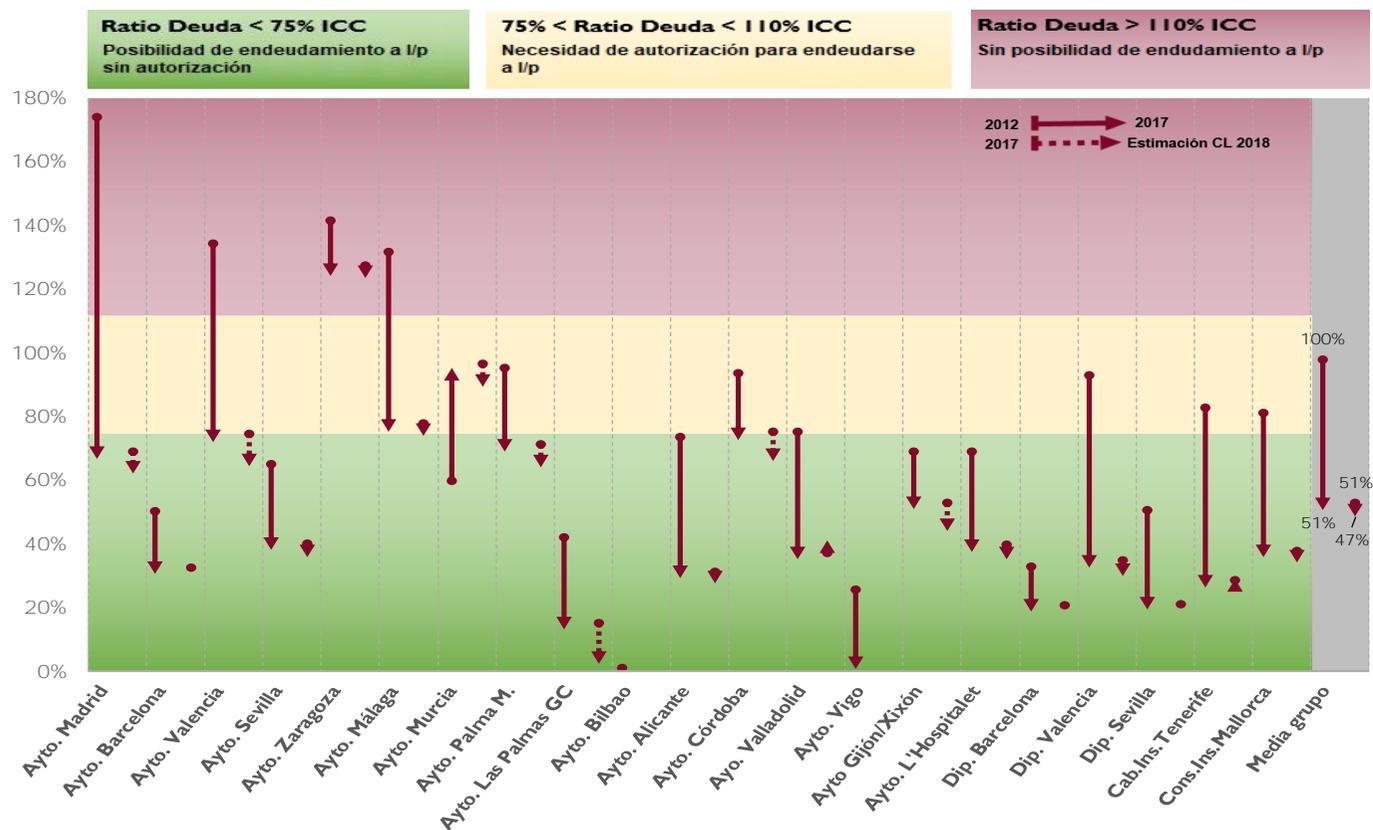
Margin on ER limit: Difference between the 2017 computable expenditure and the spending limit of the ER as a percentage of the indicated limit.

GRAPH 11. 21 LARGE LGs. ESTIMATE OF THE DEGREE OF COMPLIANCE WITH THE STABILITY TARGET IN 2018 IN 2018 BUDGETS AND COMPARISON WITH THE REPORT ON THE MAIN BUDGETARY LINES



Note: Margin on ST: Difference between the net lending/borrowing estimated for 2018 and the target as a percentage of non-financial income.

GRAPH 12. 21 LARGE LGS. EVOLUTION OF THE INDEBTEDNESS OF THE LGS 2012-2017 AND 2018 LG ESTIMATE (PERCENTAGE OF DEBT OVER CONSOLIDATED CURRENT INCOME)



Source: MINHAC and LGs analysed

2.3. Analysis of the rest of the LG sub-sector

As concluded in the Report on the main budgetary lines, AIRcF estimated that in 2018 the group of small and medium-sized LGs will continue to have a positive contribution to the consolidated local sub-sector surplus. On the basis of the IGAE publication of April 2018 on the quarterly accounts of the PAs relating to the fourth quarter of 2017, in which it details the net lending/borrowing of the municipalities with a population of over 300,000 inhabitants, and the data provided by the LGs selected by AIRcF that are not included in that same publication, it can be concluded that the rest of the sub-sector, other than the 21 large LGs analysed in the previous section, maintain their performance and contribution to the overall surplus.

The debt of this group of LGs represents around 70% of the sub-sector, with a declining trend since 2012. According to the latest data published by the Bank of Spain at the end of 2017, and the information provided to AIRcF by the LGs individually analysed, this group of small and medium-sized LGs maintains a weight in the overall sub-sector debt of around 70%, with a tendency to reduce their level of debt since 2012. This group, which represents about 65% of the total LG expenditure and whose policies affect over 70% of the national population, is characterised by its great breadth and heterogeneity, as it includes not only 8,109 municipalities, but most of the rest of the LCs within the supra and infra-municipal scope with different competences and funding systems.

This report follows up on the city councils for which AIRcF identified sustainability risks in its previous report. In the report issued in December 2017 on the main budgetary lines of the local budgets, AIRcF established several eligibility criteria: the outstanding debt to current income ratio as an indicator of financial debt sustainability, the negative cash balance as an indicator of short-term solvency and the average period of payment to suppliers as an early warning of arrears in commercial debt. In addition, AIRcF set certain confidence thresholds for selecting the LGs with the greatest structural problems in the medium and long term, for which annual compliance with the fiscal rules takes on secondary importance against the need to undertake significant reforms. The 18 city councils with a population of over 20,000 inhabitants selected were: Alcorcón, Algeciras, Almonte, Aranjuez, Ayamonte, Cuenca, Gandia, Granada, Isla Cristina, Jaén, Jerez de la Frontera, La Línea de la Concepción, Navalcarnero, Parla, San Andrés del Rabanedo, Sanlúcar de Barrameda, Totana and Valdemoro. All of these city councils (with the exception of Ayamonte which did not submit the information, with publication of a warning on AIRcF's website for non-compliance with the duty of cooperation) were classified into two groups, solely on the basis of stock variables that define their liabilities situation (outstanding debt ratio, negative cash balance and average period of payment to suppliers): those who had a high-risk sustainability situation (Jerez de la Frontera, Alcorcón, Parla, Jaen, Gandia, La Línea de la Concepción, San Andrés de Los Reyes, Totana and Navalcarnero) and those with moderate risk (the rest).

In this report, AIRcF maintains the subjective scope of LCs with sustainability issues analysed last December. All the city councils selected, as well as the MINHAC Information

Center, have complied with the duty of collaboration with AIRcF, providing the information needed for the analysis, which, alongside the stock variables that define their liabilities position, includes flow indicators that indicate the capacity and speed of return to a sustainable situation in the medium or long term. These flow indicators are the average net lending/borrowing (according to the 2017 closing data and the estimate of the initial budgets for 2018) and the average current balance on current income of those years.

This combined analysis has allowed the two groups of the report on the main budgetary lines to be divided into four groups according to the number of years in which they could return to a sustainable situation (debt below 75% of current income and APP below the legal limit) by maintaining, at least, the budgetary outcome of recent years:

- Low risk: possible return in a period equal to or less than 10 years.
- Moderate risk: possible return in a period between 10 and 20 years.
- High risk: possible return in a period of over 20 years.
- Critical situation: No policy changes, a return to a sustainable situation is not considered possible.

With the combined current analysis, the rating of the City Councils of Alcorcón and San Andrés del Rabanedo has improved, and that of Algeciras, Aranjuez and Isla Cristina has worsened. Table 6 details the rating of the risk situation of each of these LGs and the estimated trend of improvement or worsening of their liabilities situation. Coloured cell borders are used to indicate the city councils that have improved or worsened their rating with respect to the previous report with this combined analysis, which takes into account not only the past liabilities situation but also its future ability to return to a sustainable situation in the medium term.

TABLE 6. RISK SITUATION RATING OF THE LGS WITH SUSTAINABILITY PROBLEMS AND ESTIMATED TREND OF IMPROVEMENT OR WORSENING OF THEIR LIABILITIES SITUATION (sorted within each level by population size).

Nivel riesgo	Entidad Local	Tendencia	Principales parámetros			
			(Deud+RT)/ ICC	PMP	Saldo medio corriente ajustado / ICC	Capac. media /ICC
Crítico	Jerez de la Frontera	➔	464% ➔	266 ➔	1% ➔	1% ➔
	Parla	⬇	1055% ⬇	323 ➔	-26% ➔	-34% ➔
	Jaén	⬇	470% ➔	541 ➔	-8% ➔	-14% ➔
Alto	Algeciras	➔	164% ➔	384 ➔	-1% ➔	2% ➔
	Gandía	➔	353% ➔	267 ➔	12% ➔	6% ➔
	Línea de la Concepción	➔	277% ➔	19 ➔	13% ➔	10% ➔
	Aranjuez	➔	274% ➔	460 ➔	10% ➔	11% ➔
	Totana	➔	418% ➔	254 ➔	9% ➔	18% ➔
	Navalcarnero	➔	414% ➔	350 ➔	10% ➔	10% ➔
	Isla Cristina	➔	161% ➔	374 ➔	5% ➔	12% ➔
	Ayamonte	➔	157% ➔	295 ➔	7% ➔	5% ➔
Moderado	Alcorcón	⬆	190% ⬆	140 ⬆	18% ➔	14% ➔
	Valdemoro	➔	158% ➔	326 ➔	11% ⬇	19% ⬇
	Sanlúcar Barrameda	➔	179% ➔	79 ➔	11% ➔	7% ➔
	San Andrés del Rabanedo	➔	276% ➔	472 ➔	15% ➔	14% ➔
	Almonte	➔	97% ➔	182 ➔	-3% ➔	-9% ➔
Bajo	Granada	⬆	99% ⬆	132 ➔	6% ➔	6% ➔
	Cuenca	⬆	120% ⬆	47 ⬆	17% ➔	12% ➔

-  Mejora en la calificación de AIReF respecto al Informe Líneas Fundamentales al considerar no solo su posición pasiva sino su capacidad de retorno a medio plazo a una situación sostenible.
-  Empeoramiento en la calificación de AIReF respecto al Informe Líneas Fundamentales al considerar no solo su posición pasiva sino su capacidad de retorno a medio plazo a una situación sostenible.

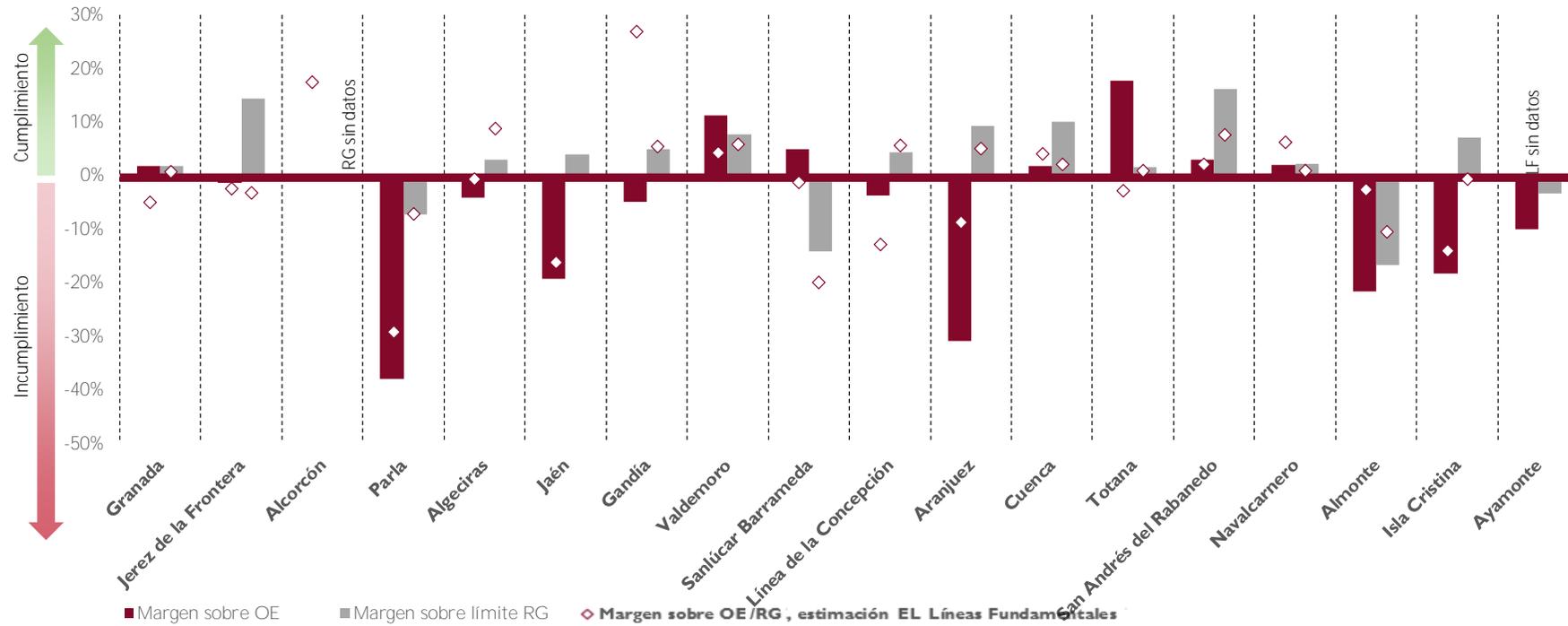
Tendencias	
⬆	Mejora
➔	Mejora lenta
➔	Mantenimiento en mismo nivel
➔	Empeoramiento lento
⬇	Empeoramiento

Figure 13 shows compliance with the stability target and the expenditure rule at the end of 2017, according to the information provided by the LGs, as well as the estimate made for the Report on the main budgetary lines. The situation of compliance or non-compliance with the stability target is shown as the percentage of their non-financial income on the margin (excess or shortfall) on the target (the legal target or that established in the EFP approved as appropriate). In the case of the expenditure rule it shows the margin (excess or shortfall) on the computable expenditure limit.

Figure 14 shows the margin on the achievement of the 2018 target (calculated on the non-financial income) estimated by the LC and by AIRcF. It also shows the margin estimated by the LC for the report on the main budgetary lines.

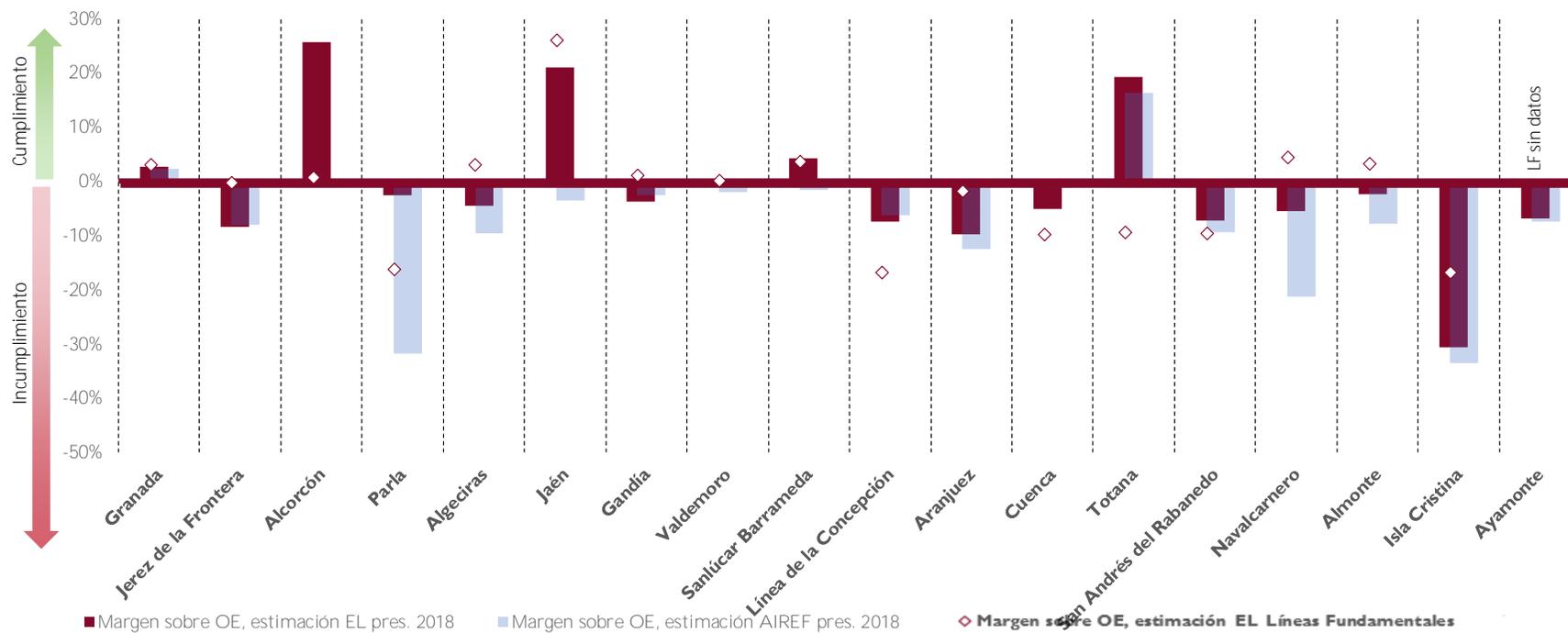
Figure 15 shows the evolution of the debt limit (ratio to current income) from 2012 to 2017 and AIRcF estimates for 2018. As can be seen, most of the city councils in this group increased their debt ratio between 2012 and 2017 and have debt ratios in excess of 110% that prevents them from initiating any new operations.

FIGURE 13. 18 LCS WITH PROBLEMS. DEGREE OF COMPLIANCE WITH THE STABILITY TARGET AND EXPENDITURE RULE IN 2017



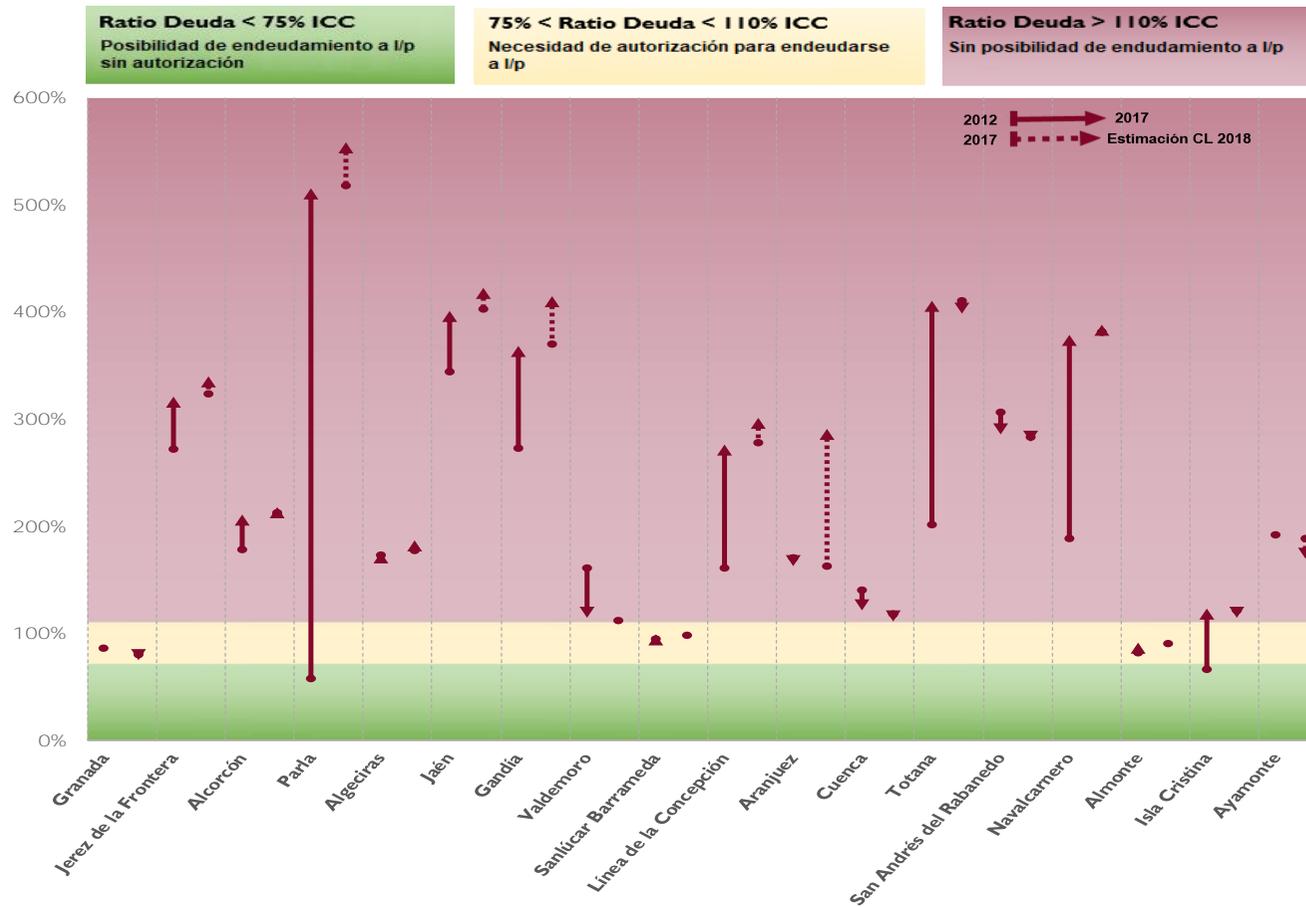
Note: Margin on ST: Difference between net lending/borrowing of the end of 2017 and the target as a percentage of non-financial income.
 Margin over ER limit: Difference between the 2017 computable expenditure and the spending limit of the ER as a percentage of the indicated limit.

FIGURE 14. 18 LCS WITH PROBLEMS. ESTIMATE OF DEGREE OF COMPLIANCE WITH 2018 STABILITY TARGET (% NON-FINANCIAL INCOME)



Note: Margin on ST: Difference between the net lending/borrowing estimated for 2018 and the target as a percentage of non-financial income.

FIGURE 15 EVOLUTION OF THE INDEBTEDNESS OF THE LGS 2012-2017 AND 2018 ESTIMATE (PERCENTAGE OF DEBT OVER CONSOLIDATED CURRENT INCOME)



Source: MINHAC and LGs analysed

2.4 Assessment of the financial supervisory actions of the LGs

This report improves the individual assessment of the LGs by incorporating, for the first time, an analysis of the actions taken by the financial supervisory bodies on the LGs individually assessed, both in the monitoring of compliance with the fiscal rules and the correction of situations of non-compliance. AIRcF has included recommendations addressed to the financial supervisory bodies in its recent reports, given the powers entrusted to them by the stability regulations in force in terms of the monitoring of compliance with the fiscal rules. Likewise, AIRcF has included recommendations addressed to the MINHAC in its role as the coordinating body, responsible for homogenising the interpretation of the application of these regulations throughout the national territory.

In order to issue this Report, AIRcF has requested that these supervisory bodies provide detailed information about their actions in relation to the implementation of the fiscal rules and the medium-term sustainability of the LGs analysed that need to be taken into account in the assessment of the same. All the financial supervisory bodies consulted (MINHAC, Autonomous Regions (AR) of Andalusia and Aragon, Provincial Council of Bizkaia, ARs of Asturias, Catalonia, Castile and Leon, Galicia and Valencia) complied with the duty of collaboration with AIRcF in good time and in the proper manner.

The analysis of the information provided by the financial supervisory bodies highlights the problem of exercising their functions in a legal context with significant gaps in the definition of their powers for monitoring fiscal rules, which leads to situations of non-application of the gradual approach of the Law and dilution of responsibilities (moral hazard). From the information provided by the financial supervisory bodies consulted, it appears that there are some aspects in identifying and establishing the extent of their competences, with regard to the application of stability rules to the LGs, which should be specified in order to ensure the effectiveness of the targets pursued by the Law. Although it is not a new situation, the issue of who implements actions has also not been resolved by the current regulations, both in the monitoring of compliance with the fiscal rules and in the implementation of corrective and coercive measures, which the Law does not specifically attribute to the financial supervisory body nor does it specify who is responsible. This not only makes the gradual approach of the Law meaningless, but also exempts both the non-compliant administration and the protection body from responsibility, causing clear moral hazard situations.

Thus, for example, the small and medium-sized municipalities (with a population below 75,000 inhabitants) approve their EFPs in their respective Plenary sessions without the need for the subsequent final approval of the financial supervisory body, which only has to be informed of the plan once it is approved. In all these cases, the regulations do not expressly require the financial supervisory body to demand that the non-compliant LG prepare an EFP, which causes its actions, if the LG does not prepare the plan, to depend on the way in which it decides to exercise its powers of financial supervision over the municipality in question. In these cases, some financial supervisory bodies report to the city council that it is necessary to adopt a non-availability agreement due to the non-approval of

the EFP required, although if the municipal Plenary session does not approve the plan, the protection body has no legal mechanisms to demand it.

Similarly, when a municipality with a population greater than 75,000 inhabitants fails to comply with a fiscal rule, if their Plenary session does not approve an EFP for the aforementioned non-compliance and they forward it to the protection body for final approval, the Law does not specify whether the protection body must demand it and which actions it must take in the event of not receiving it on time, whether it only needs to communicate the need to enact a non-availability agreement or should urge the adoption of the plan, nor which actions it should subsequently take in the event that these measures are not adopted or are insufficient.

In addition, the gaps identified result in the different interpretation of the application of stability rules by these protection bodies. For example, in this regulatory context, some of these bodies interpret that the targets agreed in the approved EFPs are only estimates and are not binding for the LG during the years of its validity. This makes the Plan meaningless, whose targets were approved and therefore accepted by LG itself in its Plenary session, and that, as they are often more stringent than the general targets of the Law, guarantee joint compliance with all the fiscal rules. Similarly, some financial supervisory bodies interpret that the approved plans may be amended or replaced during the period of their validity, which means that they are adapted in the face of possible non-compliance, thereby avoiding penalisation for said non-compliance.

3. RECOMMENDATIONS

3.1 New recommendations

- *General*

AIRcF has identified the existence of gaps in the regulations in force with respect to the exercise of the competences of the protection bodies of the LGs, which causes different implementation of the corrective measures regulated by the Organic Law on Stability and the dilution of responsibilities (moral hazard) in the event of non-compliance with fiscal rules, both in the non-compliant administration and in the protection body that must ensure such compliance.

Although both the consolidated text of the Law on Local Finances regarding indebtedness operations and the stability regulations regarding fiscal rules establish some of the competences of these bodies in both areas, there are no regulations that thoroughly describe all these competences, their scope and mechanisms that should be put in place in the event that they are not exercised with the due scope. There are also no regulations on the procedure to be followed in the event that the protection body only needs to be informed (in the case of small and medium-sized municipalities) and has no active powers that allow it to impose certain corrective actions, which involves different application of the gradual approach of the Law depending on the size of the municipality, contrary to the principle of equal treatment against non-compliances.

AIRcF considers it necessary to specify, through regulations, the content and scope of these financial supervision competences of the LGs and, as appropriate, the corrective mechanisms to apply to these bodies in cases of failure to exercise their powers in accordance with regulations, in order to ensure uniform application of stability regulations throughout the national territory, avoiding situations of inequality of treatment depending on the protection body.

For this reason, **AIRcF recommends:**

-
1. ***That the MINHAC should promote the regulatory changes required to specify the content and extent of the financial supervision competences of the LGs, as well as the corrective mechanisms to apply to these bodies in the event that its powers are not exercised in accordance with the regulations.***
-

In the report on the main budgetary lines for 2018 of the LGs it was recommended that MINHAC, as a guarantee of transparency, should review the publications on its website on the economic and financial information of the LGs and regularly update their data to reflect the latest situation.

The MINHAC has responded to this recommendation by indicating that AIRcF's request is already being implemented as, in application of Order HAP 2015/2012, the MINHAC

complies with the timetable laid down in the regulation on the information gathering/capture and its publication, but with no updates outside of this timetable.

As it is important that the information published is continuously updated and includes all the changes made by the LC (even after the MINHAC had considered it final), according to the MINHAC this would require an amendment of the regulations in force.

Therefore, **the following recommendation is made:**

-
- 2. The MINHAC should amend the Order HAP 2015/2012, of 1 October, by which they implement the information provision obligations established in the LOEPySF, setting dates for the periodic updating of the data published by MINHAC, beyond that originally established, in such a way as to reflect the latest situation in the economic and financial information of the LGs.**
-

- *Large LGs individually analysed*

The aim of this report is to assess the budgets approved for 2018 by the LGs from the point of view of compliance with the fiscal rules. AIRcF has no information on the expenditure rule or on the debt target for this year, but in terms of the stability target it has detected the existence of risks of non-compliance in some of the LGs individually analysed.

Compliance with the 2018 stability target has been measured on the basis of the situation at the end of 2017, the data of the approved or extended budgets for 2018, as well as the binding commitments undertaken by some LGs in the EFPs or APs approved and in force. In this sense, the LGs that did not comply with one of the fiscal rules in 2017 and do not have a plan in force are now in time for the approval of the corresponding EFP, therefore the assessment of compliance in 2018 will depend on the targets to be agreed upon. To date, this analysis can only be carried out on the basis of the general targets of the Law.

In the face of risks of non-compliance with the budgetary stability target in 2018, **AIRcF recommends:**

-
- 1. That the City Councils of Barcelona, Bilbao and Madrid, with non-compliance with the targets agreed in their EFPs, reiterated in the case of Barcelona and Madrid and with a deficit target in Bilbao (not in accordance with the stability regulations), should apply the gradual approach regulated in articles 25 and following of the LOEPySF for cases of non-compliance with the EFPs. In this sense, they must adopt credit non-availability agreements to ensure compliance in 2018.**
 - 2. That the City Council of Palma de Mallorca, considered at high risk of non-compliance with the stability target in 2018, should implement the corresponding preventive measures to ensure compliance at the end of the year.**
 - 3. That the City of Valencia, with moderate risk of non-compliance in 2018 with the commitment made in its Adjustment Plan, should include commitments for 2018 consistent with the Adjustment Plan for the same year in the EFP to be approved due to non-compliance with the 2017 expenditure rule .**
-

- *LGs with medium-term sustainability problems*

In the Report on the main budgetary lines of the LCs for 2018 published last December, it was identified that certain LCs had structural financial sustainability problems due to their size and persistence over time. For this reason, it was considered necessary to carry out an in-depth analysis of the situation of these city councils as a step prior to the adoption of measures that could reverse this situation in the medium term.

In addition, it was considered that the analysis could be carried out within a committee of experts led by the MINHAC and attended by the protecting Region, as appropriate. In its recommendation AIRcF did not refer to the fact that, in application of articles 25 and 26 of the LOEPySF, MINHAC would lead the commission of experts mentioned therein, as it understood in its response, as it was unaware of the measures that the financial supervisory bodies and the MINHAC could be taking in implementation of the gradual approach established in the LOEPySF. However, it was deemed necessary, given the situation of these LCs, to have a group of experts studying elements such as the source of the situation, improvements observed, prospects for ending the situation, etc., and propose the measures to be taken.

With the closing data for 2017 as well as the data from the approved or extended 2018 budget and historical data, as indicated in paragraph 2.3 of the report, the sustainability situation of the 18 entities with a population of over 20,000 inhabitants was classified into four groups (critical situation, high risk, moderate risk and low risk) on the basis of the capacity to generate recurrent surpluses that would enable them to reduce their commercial and financial debt in the medium or long term. Given that the situation of these LCs with sustainability risks is different according to the groupings, the recommendations have to be different as well, reiterating the recommendation on the convening of a group of experts for the city councils in a critical risk situation, where neither the measures that they can take nor the implementation of the gradual approach of the LOEPySF in all its ramifications would improve their situation.

AIRcF recommends:

1. ***That the MINHAC should convene and lead, for the City Councils of Jerez de la Frontera, Parla and Jaén, a committee of experts, attended by the protecting Region, where appropriate, to analyse the reasons for which these city councils have a critical level of sustainability risk and propose the most appropriate solutions.***
2. ***That the City Councils of Algeciras, La Linea de la Concepcion, Aranjuez, Totana, Navalcarnero, Isla Cristina and Ayamonte, due to their high sustainability risk in the medium term, should adopt measures in terms of income and/or expenditure to reverse their situation and that the MINHAC, Valencia and Andalusia, as financial supervisory bodies of the same, should monitor the measures taken.***
3. ***That the City Councils of Alcorcón, Valdemoro, Sanlúcar de Barrameda, San Andrés del Rabanedo and Almonte, which have moderate sustainability risks, should take the necessary measures to ensure progress in the process of improving their situation in the medium and long term.***

- *Financial supervisory bodies*

AIRcF has recommended that the City Councils of Barcelona, Bilbao and Madrid, due to non-compliance with the targets agreed in their EFPs, which are also reiterated in the case of Barcelona and Madrid, should implement the corrective measures under articles 25 and following of the LOEPySF to ensure compliance at the end of 2018.

These EFPs were approved by their protection bodies, which are also responsible for monitoring said plans.

For this reason, **AIRcF recommends:**

-
- 1. That Catalonia, the Provincial Council of Vizcaya and the MINHAC, as financial supervisory bodies of the City Council of Barcelona, the City Council of Bilbao and the City Council of Madrid, should monitor the adoption by these LGs of the corrective measures regulated in articles 25 and following of the LOEPySF for cases of non-compliance with the EFPs, to prompt their adoption in the case of non-application within the time limit set.***
-

3.2 Reiterated recommendations

-
- 1. The setting of targets for the various sub-sectors and administrations should take into account each one's fiscal situation, which requires that the expenditure rule is taken into account in the individual setting of targets.***
-

Background.

The Report on the 2018 draft GSB indicated the need to set realistic targets by sub-sector, mainly stemming from the non-recognition of the recurrent surplus of the LG sub-sector, complicating the monitoring of the implementation of budgetary commitments, reducing the enforceability of an increasingly devalued fiscal framework.

In addition, in the report on the expected compliance with the 2017 PA budgetary stability, public debt and expenditure rule targets, it was recognised that compliance with the stability target was considered feasible for the GG, although the situation varied by sub-sector, as sub-sectors such as the LGs could end the year with a surplus while others, such as the CA (and to a lesser extent, the Social Security Funds) presented high risks of deviation. Consequently, it was recommended that a clear methodology for the vertical distribution of the deficit target be established and published, taking into consideration the financial situation of the various sub-sectors, providing rigour, realism and enforceability to the establishment and subsequent fulfilment of the stability targets.

This recommendation was also insisted upon in the reports on the setting of individual targets for the Regions from all years as well as in the report on the initial budgets of the

Regions for 2018, with practical application to each of the Regions that make up the sub-sector, which find themselves in very different fiscal situations.

Reason for reiteration: non-compliance

The practical application of this recommendation to the local sub-sector is particularly relevant as it is a sub-sector with consolidated surpluses since 2012, required by the application of the expenditure rule and where the setting of a stability target of 0 is unrealistic.

The surplus situation of the local sub-sector is also reproduced in most of the LCs (including all of the large LCs analysed by AIRcF) in which the expenditure rule is more restrictive than the stability target and, thus, several have failed to comply.

The setting of an unrealistic target of 0 for this sub-sector and individually for the LCs of which it is composed, as has always been approved, despite the fact that article 11 of the LOEPySF defines the principle of budgetary stability as the obligation to maintain a position of close to balance or in surplus, relying, as does the MINHAC, on the expenditure rule acting in execution, thereby weakening the framework of monitoring of fiscal rules.

-
2. ***The MINHAC should establish and oversee a common framework for the exercise of the powers conferred to the financial supervisory bodies of the LGs, where the criteria and procedures are clearly defined and published in order to ensure uniform application of the LOEPySF in all LCs and throughout the national territory.***
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Background

In several previous reports AIRcF has recommended the necessary coordination of all financial supervisory bodies and that the MINHAC lead this coordination while ensuring the uniform application of the stability regulations and ensuring that there is no unequal treatment in similar situations.

The MINHAC has always responded that such coordination takes place at the annual meeting of the financial supervisory bodies where they debate and clarify the criteria for interpretation of the LOEPySF.

Reason for reiteration: non-compliance

For the first time this report includes an analysis of the actions taken by the financial supervisory bodies of the LCs individually assessed, both in the monitoring of compliance with the fiscal rules and the correction of situations of non-compliance. As detailed in paragraph 2.4 of the report, many differences of opinion continue to be noted in this area that must be specified by the MINHAC.

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3. ***The MINHAC should include the calculation of the expenditure rule in the information that the LGs communicate on the main budgetary lines, approved budgets and budgetary execution, as well as an analysis of the consistency of this rule with the situation of balance or surplus that can be deduced from the planned income and expenditure scenario, assessed in national accounting terms.***
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Background

In several previous reports, the last on the main budgetary lines of the LG budgets for 2018, emphasis has been placed on the importance of the application of the expenditure rule in this sub-sector and in the individual LCs (mainly in the large city councils) and, therefore, its monitoring throughout the budgetary cycle, as a way to ensure compliance at the end of the year.

Therefore, AIRcF has insisted on the need to amend Order HAP/2015/2012 on the provision of information so that the LCs include information on the implementation of this rule at all stages of the budgetary cycle and not only when they have settled the year.

Reason for reiteration: non-compliance

The MINHAC has justified the non-amendment of the Order indicated with two arguments: on the one hand, the work overload of the local financial controllers with multiple information provision obligations (which was what motivated the removal of the calculation of the expenditure rule envisaged in the initial text of the Order) and, on the other hand, the degree of non-execution of the expenditure budget of the LCs (16.8% in non-financial expenditure and 54.2% in capital operations) that makes the information on compliance with the expenditure rule during the year insignificant and a cause for confusion.

The reasons put forward by the MINHAC are not understood as they could also be applied to the calculation of the estimate of compliance with the stability target at the end of the year carried out by local financial controllers on a quarterly basis, as well as in the main budgetary lines and initial budgets, however they are not applied.

In addition, AIRcF considers that in order to make compliance with the stability targets and expenditure rule consistent, the calculations underlying both cannot and should not be separated, especially when they are mostly based on the same variables.

The President of AIRcF



José Luis Escrivá