

SUPPLEMENTARY REPORT FOR THE
INDIVIDUAL

EVALUATION OF THE MAIN BUDGETARY
LINES

OF THE LOCAL GOVERNMENTS FOR 2019

REPORT 4/19



The Independent Authority for Fiscal Responsibility (AIReF by its Spanish acronym) was created with the mission of ensuring strict compliance with the principles of budgetary stability and financial sustainability set out in article 135 of the Spanish Constitution.

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EXECUTIVE SUMMARY

On 29 January AIReF issued the report on the draft General State Budgets (GSB) for this year, along with the corresponding report on the main budgetary lines of the rest of the sub-sectors¹, including the local sub-sector. That report anticipated the publication of a supplementary report that would include the evaluation of the local governments (LGs) subject to individual analysis.

AIReF considered it very likely that the stability targets of the local sub-sector for 2019 would be complied with, as it is feasible for the surplus of 0.5% GDP projected for 2018 to be replicated, which would in turn enable compliance with the expenditure rule. These estimates were based on revenue and expenditure growth forecasts of around 3% and 4%, respectively.

In this report, as in previous ones, AIReF individually evaluates the large LGs (16 City Councils with over 250,000 inhabitants, 3 Provincial Councils, 1 Council and 1 Island Council), while, for the first time, the 3 Provincial Councils of the Basque Country have been added, due to their relative importance in the whole sub-sector, as well as their different competences and financing structure.

These 24 large LGs expect to reach a surplus of around 1,500 million Euros in 2019, therefore maintaining the expected surplus for the end of 2018.

A positive balance is expected in all of them, both in 2018 and in 2019, with the exception of the City Council of Vigo, which ended the 2018 financial year

¹ [Report on the Draft Budgets and Main Budgetary Lines of the Public Administrations for 2019](#)

with a deficit, as expected, due to a non-recurring operation stemming from the bankruptcy process of the city's auditorium.

With respect to the expenditure rule, AIReF identifies the risk that this may not be complied with in 2018² in the city councils of Barcelona and Vigo and in the Island Council of Tenerife. To assess this rule, AIReF has taken the reference rate of computable expenditure growth (2.4%) as a base, or the limits marked by the Economic Financial Plans (EFP) in force (in the case of the city councils of Bilbao, Las Palmas de Gran Canaria, Madrid and Murcia, as well as the Council of Barcelona and the Island Council of Mallorca). The city councils of Gijón and Valencia, having failed to comply with this rule in 2017, have not approved the corresponding plan to date and, therefore, have not been able to be evaluated.

On the other hand, as has been done since 2016, the 19 LGs with over 20,000 inhabitants have been analysed individually, with greater risks detected in their sustainability in the medium term. For this reason, the eligibility criteria of previous reports have remained (debt-to-GDP ratio as an indicator of the sustainability of financial debt, average payment period to suppliers as a warning of commercial debt arrears and the treasury surplus for general expenditure as an indicator of the sustainability of commercial debt).

With the new information published, generally no changes to the risk rating have been registered. Only the City Council of Cuenca stands out the analysis of entities with medium-term sustainability problems due to its improvement in the variables that define its structural situation. In addition, improvements in the level of risk that change the rating can be seen in the city councils of La Línea de la Concepción (downgraded from high risk to moderate) and Almonte and Valdemoro (from moderate risk to low risk). Finally, the analysis includes the City Council of Los Barrios for which information was not previously available.

On the other hand, while their rating has not improved, the city councils of Aranjuez, Navalcarnero, Isla Cristina, Alcorcon and San Andrés del Rabanedo have informed AIReF of measures taken or to be taken that have medium-term impact.

² According to the current framework the LGs do not have to send information on the expenditure rule in the budgetary lines, so it is not possible to evaluate this rule in 2019.

In addition, AIRcF has requested information from the city councils of Arcos de la Frontera, Arganda del Rey, Barbate, Caravaca de la Cruz, Los Palacios y Villafranca and Puerto Real as they present, according to the most recent available data, a substantial negative development regarding their debt position.

All the city councils selected, as well as the MINHAC's Information Centre, have fulfilled their obligation to cooperate with AIRcF, providing the information needed for the analysis, with the exception of the city councils of Barbate and Caravaca de la Cruz who have not fulfilled their obligation and who, therefore, will be issued a warning on this institution's website.

AIRcF has made new recommendations to the city councils of Barcelona and Vigo and the Island Council of Tenerife to approve the corresponding Economic Financial Plans within the legal deadline established, in the event that the failure to comply with the expenditure rule at the end of 2018 is confirmed. Recommendations have also been made to the city councils of Gijón and Valencia for them to implement the graduality of the law due to the non-approval of the EFP within the deadlines set. In all these cases, recommendations have been made to the bodies that bear financial guardianship of these LGs, so that they undertake the actions that will ensure the implementation of the Organic Law on Budgetary Stability and Financial Sustainability (LOEPySF). In addition, in the case of the City Council of Barbate, a recommendation has been made concerning the need to comply with the LOEPySF obligations to supply information in the manner and within the deadlines set out in the implementing order.

1 INDIVIDUAL ANALYSIS OF THE 24 LARGE LOCAL GOVERNMENTS (LGS)

For the first time, this report includes the Provincial Councils of the Basque Country in the individual evaluation of the large LGs, along with the 16 City Councils with over 250,000 inhabitants and the 5 largest Councils or similar bodies, due to the weight and different behaviour of their revenue and expenditure in the whole sub-sector. This report includes, as previously, an individual analysis of the 21 large LGs on common territory, given the size of their budgets (almost a quarter of the total LGs) and affected population (around 25% of the national total), and in addition, for the first time, an evaluation of the three Provincial Councils of the Basque Country, whose revenue and expenditure differ in volume and headings from those of the Councils on common territory as a result of the different competences that they exercise (Box 1 provides a comparison between the financial structure of Provincial Councils and the Councils).

The LGs analysed are: the City Councils of Madrid, Barcelona, Valencia, Sevilla, Zaragoza, Málaga, Murcia, Palma de Mallorca, Las Palmas de Gran Canaria, Bilbao, Alicante, Córdoba, Valladolid, Vigo, Gijón and L'Hospitalet de Llobregat; the Councils of Barcelona, Valencia and Seville; the Island Council of Tenerife; the Island Council of Mallorca; and the Provincial Councils of Álava, Guipuzcoa and Biscay.

The individual evaluation of all these large LGs has mainly been based on the information submitted by these on budgetary execution in 2018, the closing estimate for this year and the main budgetary lines for 2019, supplemented by the information subsequently received from MINHAC's Information Centre.

The data reported for 2018 by the large LGs confirm the trend that began in 2016 of a reduction in the group's contribution to the aggregate surplus. For 2019, if the forecasts communicated materialise, the situation will become more stable. The 24 large LGs subject to individual analysis hope to obtain an aggregate surplus at the end of 2018 that is slightly above the 25% of the total expected by AIReF for all LGs. However, this surplus is almost €700M lower than that obtained in 2017 (around 30% lower), a balance that is maintained in the 2019 forecasts due to the net effect of the forecasted decline in the City Council of Madrid's surplus and the increase in that expected by the group of Councils. In these Councils, the possible time lags that can occur between the recognition of revenues and the recognition of expenditures, since the final expenditure is often carried out by other administrations, particularly City Councils, can cause fluctuations between financial years in their compliance with the fiscal rules.

However, as AIReF has already mentioned in previous reports, the forecasts contained in the LGs' draft budgets, as well as the budgets finally adopted, are not a good indicator of the results that will be obtained at year-end, since these entities adjust both documents to a balance established as a target.

Figure 1 below shows the variation of the surplus of the large LGs from 2017 to 2019 according to the data observed in the last settlement (2017) and estimates for 2018 and 2019 reported by these, as well as AIReF's estimate for both years. It also presents their aggregated value by type of entity. For Provincial Councils, the revenues from the transfers to the State and to the CA have been removed, in this table and later tables, for the purposes of uniformity.

CUADRO 1. VARIATION OF THE AGGREGATE SURPLUS OF THE LARGE LGS. 2017-2019

City councils with over 250,000 inhabitants County Councils, Councils and City Halls with large budgets and Provincial Councils									
Net lending (+) or borrowing (-)									
Corporation	% over non-financial revenue								
	2017	Estimate of LGs				AIReF's estimate			
		2018 (P)	2019 (Est)	Variation 2017-2018	Variation 2018-2019	2018 (P)	2019 (Est)	Variation 2017-2018	Variation 2018-2019
Alicante	19.1	11.8	6.5	-7.3	-5.3	12.8	6.5	-6.3	-6.3
Barcelona	1.1	0.0	0.0	-1.0	0.0	0.0	0.3	-1.0	0.2
Bilbao	-7.2	0.5	0.3	7.7	-0.2	0.6	0.3	7.8	-0.2
Córdoba	9.2	21.8	4.7	12.6	-17.1	18.0	11.6	8.8	-6.4
Gijón/Xixón	1.6	3.6	3.3	2.0	-0.3	3.8	3.3	2.2	-0.5
L'Hospitalet	12.2	5.7	10.7	-6.5	5.0	9.7	10.7	-2.4	1.0
Madrid	20.6	20.7	14.4	0.1	-6.3	20.9	12.4	0.3	-8.5
Malaga	12.1	4.1	13.9	-8.0	9.8	3.9	4.4	-8.1	0.5
Murcia	6.9	6.0	10.0	-0.9	4.1	6.0	10.1	-0.9	4.1
Palma	20.2	13.1	11.3	-7.1	-1.8	13.1	10.8	-7.1	-2.3
Las Palmas GC	17.3	7.9	0.2	-9.4	-7.7	8.2	0.2	-9.1	-8.0
Seville	11.5	5.8	5.8	-5.7	0.0	11.5	5.8	0.0	-5.7
Valencia	14.0	8.7	9.2	-5.3	0.6	12.3	12.7	-1.7	0.4
Valladolid	8.6	3.2	5.0	-5.4	1.8	10.1	5.4	1.5	-4.6
Vigo	6.5	-12.1	1.0	-18.6	13.2	-12.7	1.9	-19.2	14.5
Saragossa	15.2	5.8	5.0	-9.3	-0.8	6.6	5.3	-8.6	-1.2
Island Council of Tenerife	24.4	6.5	9.1	-17.9	2.7	7.0	1.5	-17.4	-5.5
Island Council of Mallorca	-18.1	8.5	5.6	26.6	-2.9	6.0	5.2	24.1	-0.8
Council of Barcelona	5.1	1.2	27.3	-3.9	26.1	2.7	0.1	-2.3	-2.7
Council of Seville	25.3	13.6	30.1	-11.8	16.5	15.3	12.8	-10.1	-2.4
Council of Valencia	13.2	7.7	5.5	-5.5	-2.2	10.1	6.4	-3.1	-3.6
Provincial Council of Araba/Álava	7.7	4.7	2.3	-2.9	-2.4	4.7	2.3	-2.9	-2.4
Provincial Council of Gipuzkoa	7.3	4.7	4.3	-2.6	-0.4	4.7	6.9	-2.6	2.2
PC of Bizkaia	10.1	4.6	0.1	-5.5	-4.5	4.6	1.8	-5.5	-2.7
Aggregate of 24 corporations	11.8	7.4	7.2	-4.4	-0.3	7.6	7.2	-4.2	-0.4
<i>Madrid</i>	20.6	20.7	14.4	0.1	-6.3	20.9	12.4	27.2	-8.5
<i>Remaining 15 City Councils</i>	7.9	4.4	4.6	-3.6	0.2	4.5	4.6	4.3	0.1
<i>County councils (common regime), Island Councils and Councils</i>	11.1	6.3	15.2	-4.7	8.8	6.6	15.3	-2.3	8.8
<i>Provincial Councils</i>	8.9	4.6	1.7	-4.2	-3.0	4.6	1.7	7.6	-3.0

Source: Data provided by the LGs and MINHAC and AIReF's estimate.

The individual evaluation of compliance with the fiscal rules by the large LGs has taken the existence of Economic Financial Plans (EFPs) into account, insofar as these can cover commitments other than the general commitments of the Law. AIReF has requested that MINHAC, given its management and coordination competences over the LGs' guardianship bodies, clarify its criteria in relation to the stability target and expenditure rule of the LGs when they have an EFP in force, if the general criteria of the Law and the limits approved in this plan, that is to say, if the EFP limits approved are binding for each of the fiscal rules or are merely estimates. This had special significance in the Report on expected compliance with the targets at the end of 2018³, issued in July of last year, given that the recommendations made to several LGs were suspended until the aforementioned criteria are clarified.

³ [Supplementary report on the expected compliance with the 2018 targets by the LGs](#)

BOX 1. THE PROVINCIAL COUNCILS.

THE FINANCIAL STRUCTURE OF THEIR REVENUE AND EXPENDITURE

The Provincial Councils (PCs) are local corporations, integrated into the local sub-sector, but with their own characteristics regarding tax and financial regimes that differentiate them from Councils.

Their specialities stem from Law 12/2002 of 23 of May, which approves the Economic Agreement. This state law has its origin in the first additional provision of the Constitution, which protects and respects the historical rights of the provincial territories, and in the Basque Country's Statute of Autonomy, which regulates taxation and financial relations between the State and the Basque Country.

Thus, in the field of revenue received, the Provincial Councils have the capacity to impose, manage, settle, collect and inspect all taxes levied on their territories, with the exception of import duties and import charges of VAT and Special Taxes (ST).

This means that, except for any taxes arising from importation, all state taxes (Personal Income Tax - PIT, Corporate Income Tax - CIT, VAT, ST, Inheritance and Donations Tax, Tax on Property Transfers and Documented Legal Acts...) that in the rest of Spain are paid to the State, to the Autonomous Regions (in the percentages ceded ranging from 50% to 100% and with the regulatory capacities established in each) or to Local Corporations (in the minimum percentages ceded for the collection of PIT, VAT and ST for the Councils and some City Councils without regulatory capacity), in the case of the Basque territory, these are levied by each of the PCs (these are the subsidised taxes). In addition, the PCs regulate the local taxes levied in their territories, whose collection is the responsibility of the corresponding City Council.

In addition to being used to finance their competences, the subsidised taxes are used to finance the Autonomous Region of the Basque Country, transfer the Quota to the State, as contribution to the funding of its exclusive competences or not transferred to the Community, and they fund the City Councils on its territory with subsidised revenue sharing.

The distribution of this revenue is established by the law of the Basque Parliament, subject to the agreement of the Basque Committee on Finance (composed of the Region, the PCs and the Basque municipalities, when it comes to matters that affect them). It stipulates that the revenues from the Agreement (discounting the Quota to be paid to the State set in a state law subject to agreement in the joint committee, composed of the State, the Regions and PCs) are to be distributed between the Region and the PCs according to the competences they exercise. According to law in force, this allocates 70.04% of the revenue to the Region and the remaining 29.96% to the PCs.

Once the total contribution of the PCs to the Region is established, each PC makes a contribution of 70% depending on the relative income of each and of 30%

depending on the reverse of the fiscal effort in each territory, weighted by their collection capacity (includes all agreed taxes of the PCs as well as municipal taxes). In addition, the law of the Basque Parliament recommends that every PC gives the LG of its territory, as a share in subsidised revenue, a minimum of 54.7% of the revenue taken by the PC.

All this makes each PC's revenue and expenditure budget structure very different from that of the Councils, as shown in the following table.

	Provincial Councils		County Councils under Common Regime	
	Millions of €	% total	Millions of €	% total
Non-financial revenue	15,230	100.0%	6,081	100.0%
Personal Income Tax, VAT, ST and other PC	14,237	93.5%	715	11.8%
Current transfers from State Administration	251	1.6%	4,041	66.5%
Current transfers from Autonomous Commu	241	1.6%	324	5.3%
Rest of non-financial revenue	502	3.3%	1,001	16.5%
Non-financial expenditure	14,988	100.0%	5,343	100.0%
Staff, Expenditure on current assets, Financi	1,301	8.7%	2,632	49.3%
Current Transfers to State Administration	1,131	7.5%	3	0.1%
Current transfers to Autonomous Communi	9,871	65.9%	65	1.2%
Current transfers to Local Corporations	1,614	10.8%	1,057	19.8%
Rest of non-financial expenditure	1,071	7.1%	1,586	29.7%

The revenue budget records the total subsidised revenue derived from the taxpayers of each PC, in accordance with the connection points, and, the expenditure budget records the quota that each PC has to pay the State (current transfers to the General State Administration - GSA), the contribution that each one has to pay to the Region (transfers to the Region) and transfers to the City Councils as a share in subsidised taxes. As can be seen, while funding primarily comes from transfers from the GSA for Councils that are part of the general tax regime, in the PCs almost 94% comes from subsidised taxes. Most of this revenue (84%) is allocated to be transferred to the Regions, City Councils and GSA, whilst, in the case of the PCs, only 20% are allocated to transfers.

This different revenue and expenditure structure is also significant with respect to the evolution of these, as shown in the table below. In 2014-2017, the average revenue of the PCs grew much more than that of Councils that were part of the general tax regime, as a result of the evolution of subsidised taxes, and this evolution translated to transfers to the Region and the LGs.

With regards to the stability target, MINHAC has specified that the limit of the EFP is estimated, therefore it is understood that there is compliance with this rule if the LG has lending capacity. On the contrary, with regard to the expenditure rule, MINHAC considers the computable expenditure limit adopted in in the EFP as binding for the purpose of determining compliance.

	Average year-to-year variation (2014-2017 period)	
	Provincial Councils	Common Regime Council
Non-financial revenue	4.9%	1.2%
Provincial Council subsidised taxes	5.0%	
Transfers received from the GSA for State revenue share		2.0%
Other revenue	4.9%	-0.1%
Non-financial expenditure	5.4%	1.2%
Staff, Expenditure on current assets, Financial	3.2%	1.3%
Current transfers to Autonomous Communities	5.8%	0.9%
Current transfers to Local Corporations	3.4%	5.3%
Other expenditure	6.8%	-0.7%

In addition to the analysed differentiation in terms of tax competences that, as has been indicated, affects both revenue and expenditure, the PCs differ from the Councils in the expenditure competences assigned to them. Amongst these competences, it is worth noting those stemming from social services that, in the case of the common territory, are fundamentally exercised by the Regions, whilst in the Basque Country they are exercised by the PCs.

On the other hand, it is also worth noting the competences that the PCs have with regard to the municipalities in their scope, over which they exercise financial guardianship. In the rest of the territories these competences are exercised by the Region or by the State, in the case that the Region has not assumed competence.

In this sense, MINHAC has indicated that these criteria will soon be documented and published. The lack of precision of these criteria has generated confusion and diversity in interpretations between management bodies and guardianship or control bodies.

Despite this lack of current documentation, AIReF's evaluation of the compliance with the 2018 and 2019 targets has been carried out in accordance with these criteria, since MINHAC is the competent body in this matter. For this reason, the evaluation is conditional upon the specification and publishing of definitive versions of the aforementioned criteria.

With effect in 2018 and/or 2019, 6 LGs of the 24 analysed have EFPs in force and another 2 have failed to comply with their obligation to approve an EFP. Due to non-compliance with the expenditure rule for 2017, of the 24 LGs, the City Councils of Bilbao, Las Palmas de Gran Canaria, Madrid and Murcia, as well as the Council of Barcelona and the Island Council of Mallorca have EFPs

approved by their guardianship bodies. On the other hand, the City Councils of Gijón and Valencia, having failed to comply with this rule in 2017, have not approved the plan to date.

In 2019, there is no risk of non-compliance with the balance target in any of the 24 LGs, however, in 2018 the City Council of Vigo will incur a deficit due to a non-recurring operation. All of these large LGs, given the volume of revenue that they manage and their high financial autonomy, there are no problems regarding compliance with the stability target, as for them it is a more legal target than a real target, with the exception of specific non-recurrent operations. This is the case of the City Council of Vigo, which, at the end of 2018, applied the full amount of the bankruptcy process resulting from the concession of the city's auditorium, a situation that will not be replicated in the future and that means incurring a deficit in the financial year just ended, but that does not have an impact in successive years.

As a result of these situations of repeated surpluses, the strictest fiscal rule is the expenditure rule, since compliance with this rule requires a certain amount of surplus.

According to the current framework for the LGs, they do not have to send information about the expenditure rule in their budgetary lines so it is not possible to evaluate this for 2019. Although current legislation does not require the evaluation of this in the initial stages of the budgetary cycle, in successive reports AIRcF has already recommended the need to apply the expenditure rule in those stages, to operate as a preventive mechanism to avoid non-compliance at year-end.

For 2018, AIRcF identifies the risk of non-compliance with the expenditure rule in the City Councils of Barcelona and Vigo and in the Island Council of Tenerife. The information on the execution and year-end estimate for 2018 sent by the LGs to AIRcF and, where appropriate, the information contained in the EFPs in force, shows that all the LGs would comply with the expenditure rule at the end of last year (reference rate or EFP commitments), except for the City Councils of Barcelona and Vigo and the Island Council of Tenerife for which the general reference rate is the limit. It has not been possible to assess compliance in the City Councils of Gijón and Valencia as they failed to fulfil their obligations to approve the EFP.

With its execution data, the Barcelona City Council confirms the high probability of non-compliance with the expenditure rule in 2018 that it previously forecasted at the start of the year. From 2015 to 2017, this City

Council has benefited from the coverage of successive EFPs approved by the Region of Catalonia, which has resulted in the non-application of the graduality provided for in the LOEPySF for the case of non-compliance or non-approval of the EFP. The succession of the EFP has not served to avoid successive non-compliances with the fiscal rule in question. In addition, in January 2018, in light of a forecast of non-compliance with the expenditure rule at year-end, upon verifying the approved estimates, the City Council preventively agreed an EFP that was not ratified by its guardianship body. With the data provided, AIReF estimates, in agreement with the LG, that the aforementioned non-compliance is very likely, as already stated in the July report, recommending the implementation of the measures that it reported it intended to adopt. Therefore, upon confirming these forecasts in the settlement, a remedial EFP will need to be adopted.

The City Council of Vigo forecasts non-compliance with the expenditure rule in 2018 due to the non-recurrent operation resulting from the bankruptcy **process of the city's auditorium**. The impact of this operation, with no effect on future years, not only determines non-compliance with the stability target but also with the expenditure rule for 2018.

The Island Council of Tenerife expects non-compliance with the expenditure rule at the end of 2018 as a result of computable expenditure increasing by 12%. According to the information provided to AIReF by the Island Council, an important increase in expenditure is forecasted at the end of 2018, without revenue measures that allow the level of computable expenditure to rise in this rule. This non-compliance was previously forecasted in July, albeit by a much lower amount. Upon confirmation of these forecasts at year-end, an EFP will need to be adopted.

Figure 2 contains a comparative view of AIReF's forecast for each of the LGs regarding compliance with the stability target and expenditure rule at the end of 2018 and the forecast for compliance with the stability target at the end of 2019, as well as the ratio of debt to current revenue at the end of this year.

In turn, Figure 3 summarises AIReF's main conclusions with regard to the forecasts of compliance with the fiscal rules in 2018 and 2019. The situation of each LG is graded by colours with regard to compliance with the fiscal rules both in the current year and in past years.

CUADRO 2. COMPARATIVE VIEW OF AIREF'S FORECASTS FOR COMPLIANCE WITH FISCAL RULES BY LARGE LGS

LOCAL CORPORATIONS	ECONOMIC FINANCIAL PLAN (EFP), and/or ADJUSTMENT PLAN (AP) APPROVED AND IN FORCE		STABILITY TARGET (ST)		EXPENDITURE RULE (ER)		DEBT RATIO (DR)	
	ECONOMIC FINANCIAL PLAN	ADJUSTMENT PLAN	2018 year-end	2019 Forecast	2017 year-end	2018 year-end	2019 Forecast	
MADRID	Failed to comply with ER15 and ER16. After 3 EFPs approved by Plenary session but not by financial guardianship body, EFP 17-18 is definitively approved in Dec 17.		✓	✓	✗	✓	45%	
BARCELONA	EFP for non-compliance with ER15 approved for 15-16. Reviewed due to prior non-compliance 16. New EFP 16-17. New EFP 18-19 approved in January 2018 by the City		✓	✓	✓	✗	30%	
VALENCIA	Did not comply with ER17, having to submit an EFP that, to date, has not been carried out.	AP 2012 with surplus and debt commitments until at least 2022	✓	✓	✗	Without EFP	47%	
SEVILLE			✓	✓	✓	✓	29%	
ZARAGOZA	EFP for non-compliance with ER15 approved for 16-17. Non-compliance with ER17 committed to in the EFP due to time lag.		✓	✓	✗ (1)	✓	111%	
MALAGA	EFP for non-compliance with ER15 approved for 16-17	AP 2012 with commitments until 2020	✓	✓	✓	✓	61%	
MURCIA	EFP for non-compliance with ST and ER16 approved for 17-18		✓	✓	✓	✓	84%	
PALMA	EFP for non-compliance with ER15 approved for 16-17	AP 2012 with surplus and debt commitments until at least 2022	✓	✓	✓	✓ (2)	49%	
LAS PALMAS DE GRAN CANARIA	EFP for non-compliance with ER17 approved for 18-19		✓	✓	✗	✓	0%	
BILBAO	EFP approved by the Provincial Council by approving the 2017 budget with deficit, in non-compliance with the provisions of the LOEPySF. In force for 17-18.		✓	✓	✓	✓	0%	
ALICANTE	EFP for non-compliance with ER15 approved for 16-17	AP with surplus and debt commitments until 2023	✓	✓	✓	✓	8%	
CORDOBA		16 debt refinancing plan with surplus commitments in 2017	✓	✓	✓	✓ (2)	60%	
VALLADOLID			✓	✓	✓	✓ (2)	36%	
VIGO			✗	✓	✓	✗	0%	
GUÓN	Did not comply with ER17. Pending the adoption of EFP by the Plenary. Outside of the legal deadline.		✓	✓	✗	Without EFP	43%	
L'HOSPITALET DE LLOBREGAT			✓	✓	✓	✓ (2)	32%	
PC of BARCELONA	EFP for non-compliance with ER17 approved for 18-19		✓	✓	✗	✓	13%	
PC of VALENCIA	EFP for non-compliance with ER15 approved for 16-17		✓	✓	✓	✓	30%	
PC of SEVILLE			✓	✓	✓	✓	3%	
ISLAND COUNCIL OF TENERIFE			✓	✓	✓	✗	18%	
ISLAND COUNCIL OF MALLORCA	EFP for non-compliance with ST and ER16 approved for 18-19		✓	✓	✗	✓	30%	
PROVINCIAL COUNCIL OF ARABA/ALAVA			✓	✓	✓	✓	70%	
PROVINCIAL COUNCIL OF GIPIZKOA			✓	✓	✓	✓	39%	
PROVINCIAL COUNCIL OF BIZKAIA			✓	✓	✓	✓	35%	

✓	Compliance
✗	Non-compliance
(1)	Pending response from MINHAC
(2)	AIREF estimates compliance, although the data provided by the City Council indicate risk of non-compliance

Note: The background colours in the debt column represent the debt period of the DR: green if it is <75%, yellow if it is between 75% and 110% and red if it is >75%

CUADRO 3. **AIREF'S MAIN CONCLUSIONS ON RISKS OF NON-COMPLIANCE WITH FISCAL RULES BY LARGE LGS**

	Historical compliance with fiscal rules and without current or future risks	ST: Stability Target
	Past one-off non-compliances or low risk of current non-compliance	ER: Expenditure rule
	Current non-compliances without expected repetition	DR: Ratio of debt over current consolidated revenue
	Repeated non-compliance forecasted to be corrected in 2018	
	Repeated non-compliance not forecasted to be corrected in 2018 or without the due legal coverage	AFP: Economic Financial Plan AP: Adjustment Plan

CORPORATIONS WITH REPEATED NON-COMPLIANCES NOT EXPECTED TO BE CORRECTED IN 2018 OR WITHOUT THE DUE COVERAGE

LOCAL GOVERNMENTS	AIREF'S CONCLUSIONS ON COMPLIANCE WITH 2018 and 2019 FISCAL RULES
BARCELONA	<ul style="list-style-type: none"> · ST The City Council expects to comply with the 2018 and 2019 ST with a close-to-balance lending capacity. · ER: Compliance with the commitment of the 2017 ER envisaged in the EFP (computable expenditure limit of €2,529 million) with a computable expenditure of €2,477 million. Expected non-compliance with the 2018 ER with an expenditure excess of €80 million over the limit (€2,572 million), an excess that would not occur with the EFP approved by the City Council in January 2018 (currently to be adopted by the Autonomous Community). The City Council maintains that if it does not end up complying, it will adopt the measures provided for in articles 20 et seq. of the LOEPySF. · DR: Maintains a debt to current revenue ratio of around 30%.
VALENCIA	<ul style="list-style-type: none"> · ST The City Council expects to reach a surplus of €73 million at the end of 2018, which is lower than that established in the AP (€99 million). It expects to reach a very similar surplus in 2019. AIREF estimates for both years are close to €100 million. · ER: Failed to comply with the 2017 ER by exceeding the maximum expenditure (€626 million) with a computable expenditure of €651 million. It has not approved the EFP as required by law. It plans to comply with ER18 as a result of the consolidation of the excess of 2017. · DR: In 2018, a debt ratio of 55% is expected, reducing that of 2017 by 18%. In 2019, it would also reduce, reaching 47%.
GIJÓN	<ul style="list-style-type: none"> · ST A surplus of €9 million is forecasted for the end of 2018. In 2019, a surplus of €8 million is forecasted. · ER: Failed to comply with the ER at the end of 2017 (maximum expenditure €201 million) with a computable expenditure of €206 million. Forecasted to closely comply with the ER for 2018 but must respect what is set in the EFP. · DR: Forecasted to close 2018 with a DR of 50%, this is expected to be reduced to 43% at the close of 2019.

CORPORATIONS WITH REPEATED NON-COMPLIANCES EXPECTED TO BE CORRECTED IN 2018

LOCAL GOVERNMENTS	AIREF's CONCLUSIONS ON COMPLIANCE WITH 2018 and 2019 FISCAL RULES
MADRID	<ul style="list-style-type: none"> · ST The City Council plans to settle 2018 with a surplus of around €1,000 million, which is lower than that committed to in the EFP (€1,257 million). For 2019, the City Council has forecasted a reduction of 35% in the estimated surplus at the end of 2018 in the Main Budgetary Lines. · ER: Failed to comply with the commitment to the 2017 ER established in the EFP (computable expenditure limit €3,332 million) with an excess expenditure of €106 million. Expected to fulfil the commitment to the 2018 ER (€3,375 million) without reaching the limit of €10 million due to the reduction of jobs, execution of FSI and increase in the forecasts for collection by measures. AIREF estimates that this compliance is likely if the previous assumptions occur at settlement. · DR: Forecasted to end 2018 with a 52% DR to stand at 45% at the end of 2019.
ZARAGOZA	<ul style="list-style-type: none"> · ST At the end of 2018, it is forecasted to reach a surplus of €42 million, reducing this slightly in 2019. · ER: Did not comply with the expenditure limit commitment provided for in the EFP (€624 million) at the close of 2017 with a computable expenditure of €639 million due to a time lag. It is forecasted to comply with the ER in 2018 even with the consolidation of the above excess. · DR: Maintains a DR higher than 110%, at least since 2012. This ratio increased from 2015 due to the imputation of the loan for the construction of the city's tramway. Forecasted to rise to 121% in 2018 and reduce to 111% at the end of 2019.

CORPORATIONS WITH CURRENT NON-COMPLIANCES NOT EXPECTED TO BE REPEATED

LOCAL GOVERNMENTS	AIREF's CONCLUSIONS ON COMPLIANCE WITH 2018 and 2019 FISCAL RULES
VIGO	<ul style="list-style-type: none"> · ST As a result of the bankruptcy process of the city's auditorium (a non-recurring operation) the City Council forecasts a deficit of €30 million for 2018. In 2019 it is expected to return to surplus. · ER: Complied with the ER at the close of 2017, reaching the computable expenditure limit (€208 million). Forecasted to not comply with this rule in 2018 as a result of the non-recurring operation mentioned above. · DR: The City Council had no debt at the end of 2018, a situation that is expected to be maintained in 2019.
ISLAND COUNCIL OF TENERIFE	<ul style="list-style-type: none"> · ST In 2018, it is forecasted to reach a surplus of €59 million, reducing the amount referred to in the report on the end of 2018 by half. In 2019, it is forecasted to reach a surplus of €83 million that AIREF estimated to be a much lower amount. · ER: Complied with the ER at the end of 2017 (maximum expenditure €355 million) with a computable expenditure of €353 million. Forecasted non-compliance with the ER in 2018 with an excess expenditure of €29 million over the limit (€365 million), which is much higher than that provided for in the report on the end of 2018. · DR: Its DR was 22% at the close of 2018 and it is expected to decrease to 18% at the end of 2019.

CORPORATIONS WITH PAST ONE-OFF NON-COMPLIANCES OR LOW RISK OF
CURRENT NON-COMPLIANCES (1)

LOCAL GOVERNMENTS	AIREF's CONCLUSIONS ON COMPLIANCE WITH 2018 and 2019 FISCAL RULES
MURCIA	<ul style="list-style-type: none"> · ST The City Council expects to reach a surplus of €23 million at the end of 2018, a figure similar to that provided for in the EFP. It expects to reach a surplus of €39 million in 2019. · ER: Complied with the expenditure limit commitment of 2017 established in the EFP (€336 million) with a computable expenditure limit of €329 million. It expects to comply with the ER limit commitment of 2018 established in the EFP (€344 million) with a computable expenditure of €339 million. · DR: Prior to 2016 it maintained a debt ratio below 75%. In 2016, due to the loan imputed for the tramway operation, its ratio changed to 100%. In 2018 this is expected to be reduced to 91%, and to 84% by the end of 2019.
PALMA	<ul style="list-style-type: none"> · ST It is forecasted to reach a surplus of €56 million at the close of 2018, above that provided for in the AP (€43 million). In 2019, it is expected to reach a surplus of €48 million, a figure that is very similar to that provided for in the AP. · ER: Complied with the expenditure limit commitment of 2017 (maximum expenditure €342 million) established in the EFP with a computable expenditure of €332 million. However, it expects non-compliance with the ER for 2018, with an excess expenditure of €2 million, although AIREF considers compliance to be possible. · DR: Its DR is less than 75% (49%).
LAS PALMAS DE GRAN CANARIA	<ul style="list-style-type: none"> · ST It expects to reach a surplus of €32 million in 2018, similar to that provided for in the 18-19 EFP. In 2019, it forecasts a surplus close to stability, as provided for in the EFP. · ER: Failed to comply with the 2017 ER and, therefore, has approved an EFP that it will comply with, although closely. · DR: Maintains a ratio of debt to current revenue very close to 0.
BILBAO	<ul style="list-style-type: none"> · ST At the end of 2018, it expects to reach a surplus of €3 million, therefore reaching the commitment established in the EFP (€2 million). For 2019, it expects to reach a surplus of €2 million. · ER: Complied with the expenditure limit commitment of 2017 established in the EFP and also expects to comply with it in 2018 (€540 million) with a computable expenditure of €535 million. · DR: Maintains a ratio of debt to current revenue very close to 0.
CORDOBA	<ul style="list-style-type: none"> · ST The City Council expects to end 2018 with a surplus of €67 million (AIREF estimates a lower figure). For 2019, it forecasts a surplus of €15 million; AIREF estimates a larger amount. · ER: Complied with the 2017 ER (maximum expenditure of €224 million) with a computable expenditure of €216 million. At the close of 2018 it is expected to comply with the ER, although there could be risk based on the definitive execution of investments. · DR: Expects to end 2018 with a DR of 70%, reducing it to 60% at the end of 2019.
VALLADOLID	<ul style="list-style-type: none"> · ST The City Council expects to end 2018 with a surplus of €9 million, however, given the low degree of execution of investments, AIREF estimates that the surplus might be similar to that obtained in previous years. It expects to reach a surplus of €14 million in 2019. · ER: Complied with the ER at the end of 2017 (maximum expenditure of €222 million) with a computable expenditure of €220 million. It is expected to comply with the ER in 2018, although closely according to the degree of execution of investments. · DR: The DR was 36% at the end of 2018, which is expected to be maintained at the end of 2019.
L'HOSPITALET DE LLOBREGAT	<ul style="list-style-type: none"> · ST Expects to end 2018 with a surplus of €14 million and to reach a surplus of €26 million in 2019. AIREF estimates a similar surplus for both years. · ER: Complied with the ER at the end of 2017 with a computable expenditure of €179 million (€3 million under the limit). It is expected to comply with the 2018 ER, although closely according to the degree of execution of investments. · DR: Maintains a DR of 38% at the end of 2017, expected to fall to 32% at the end of 2018.

CORPORATIONS WITH PAST ONE-OFF NON-COMPLIANCES OR LOW RISK OF
 CURRENT NON-COMPLIANCES (2)

LOCAL GOVERNMENTS	AIREF's CONCLUSIONS ON COMPLIANCE WITH 2018 and 2019 FISCAL RULES
Council of BARCELONA	<ul style="list-style-type: none"> · ST It is forecasted to reach a surplus of €10 million at the close of 2018, €2 million higher than what was committed to in the EFP. In 2019, it forecasts a surplus of €207 million, a figure much higher than that obtained in previous years and that expected in the EFP. AIReF, on the contrary, estimates a lending capacity close to balance. · ER: Failed to comply with the ER at the end of 2017 (maximum expenditure €719 million) with a computable expenditure of €758 million. In 2018, it expects to closely comply with the ER limit of the EFP (€779 million). · DR: In 2018, it expects to reach a DR of 16% that will be reduced to 13% in 2019.
Council of VALENCIA	<ul style="list-style-type: none"> · ST A surplus of €38 million is expected at the end of 2018, reducing to €10 million in 2019. · ER: Complied with the computable expenditure limit commitment provided for in the EFP at the end of 2017. It also expects to comply with the 2018 ER with a computable expenditure of €20 million below the limit (€311 million). · The DR at the close of 2018 was 30%, which is expected to be maintained at the end of 2019.
ISLAND COUNCIL OF MALLORCA	<ul style="list-style-type: none"> · ST Failed to comply with the 2017 ST with a deficit of €70 million as a result of the consolidation of investments made through shadow tolls in the amount of €108 million. In 2018 it expects to reach a surplus of €35 million, less than the €10 million committed to in the EFP. In 2019, it forecasts a surplus of €25 million, which is also lower than that committed to in the EFP (€37 million). · ER: Failed to comply with the ER at the end of 2017 with an excess expenditure of €116 million primarily caused by the aforementioned operation. In 2018, it forecasts compliance with the expenditure limit provided for in the EFP (€320 million). · DR: In 2016, it had a DR of 32% that increased to 36% in 2017 as a result of the aforementioned operation. In 2018, it expects to reach the levels of 2016, slightly lowering it to 30% in 2019.

CORPORATIONS WITH HISTORICAL COMPLIANCE WITH FISCAL RULES AND
WITHOUT CURRENT OR FUTURE RISKS

LOCAL GOVERNMENTS	AIReF's CONCLUSIONS ON COMPLIANCE WITH 2018 and 2019 FISCAL RULES
SEVILLE	<ul style="list-style-type: none"> · ST: Forecasts reaching a surplus of €49 million at the end of 2018 and a similar figure in 2019. AIReF forecasts indicate that the surplus will be close to the 2017 figure (around €100 million) in 2018. · ER: Closely complied with the ER at the end of 2017 and forecasts similar compliance in 2018. · DR: At the end of 2018, the DR is forecasted to be 36% and it is expected to reduce to 29% in 2019.
MALAGA	<ul style="list-style-type: none"> · ST: Expects to reach a surplus of €26 million in 2018. Therefore, the forecast for the year-end report will worsen (€44 million) and it would not reach the €35 million provided for in the AP. In 2019, a surplus of €89 million is forecasted, which AIReF estimates to be close to that of 2018. · ER: Complied with the ER commitment envisaged in the EFP (€516 million) for 2017 with a computable expenditure of €488 million. Expected to comply with the ER limit for 2018 (€499 million) with a computable expenditure very close to that figure. · DR: At the end of 2018, a DR of 64% is expected, with this slightly lowering by the end of 2019.
ALICANTE	<ul style="list-style-type: none"> · ST: Expects to end 2018 with a surplus of €31 million, which is €5 million lower than that committed to in the AP. For 2019, a surplus of €17 million is forecasted. · ER: Complied with the 2017 computable expenditure limit of the EFP (maximum expenditure €213 million) with a computable expenditure of €207 million. Forecasts compliance with the 2018 ER with a computable expenditure of €211 million (the limit would be €212 million). · DR: At the end of 2018 the expected DR is 9%, 20% less than that of 2017. The DR is expected to be 8% at the end of 2018.
Council of SEVILLE	<ul style="list-style-type: none"> · ST: In 2018, a surplus of €47 million is forecasted, which would reach €107 million in 2019. The AIReF forecasts a surplus for 2019 close to that of 2018. · ER: Complied with the 2017 ER, adjusting to the maximum expenditure of €177 million. Forecasts compliance with the 2018 ER with a computable expenditure close to the limit (€180 million). · DR: A similar DR of 3% is expected at the end of 2018, with this being maintained for 2019.
PROVINCIAL COUNCIL OF ARABA/ÁLAVA	<ul style="list-style-type: none"> · ST: In 2018, a surplus of €38 million is forecasted, which would reduce to €17 million in 2019. · ER: Complied with the 2017 ER, adjusting to the maximum expenditure of €374 million. Compliance with the 2018 ER is expected, with a computable expenditure very close to the limit (€383 million). · DR: A ratio of debt over current revenue of 67% adjusted for transfers to the Autonomous Community and the GSA is expected. In 2019 this should increase slightly to 70%.
PROVINCIAL COUNCIL OF GIPUZKOA	<ul style="list-style-type: none"> · ST: In 2018, a surplus of €67 million is forecasted, which would be maintained in 2019. AIReF estimates a higher surplus for 2019. · ER: Complied with the 2017 ER, adjusting to the maximum expenditure of €700 million. Compliance with the 2018 ER is expected, with a computable expenditure very close to the limit (720M€). · DR: A ratio of debt over current revenue of 43% adjusted for transfers to the Autonomous Community and the GSA is expected. In 2019, it should decrease to 39%.
PROVINCIAL COUNCIL OF BIZKAIA	<ul style="list-style-type: none"> · ST: In 2018, it expects to reach a surplus of €124 million, which would reduce to €2 million in 2019. AIReF would increase this amount to €50 million. · ER: Complied with the 2017 ER, practically adjusting to the maximum expenditure of €1,343 million. It is forecasted to comply with the 2018 ER with a computable expenditure lower than that of 2017 as a result of measures to permanently increase collection. · DR: A ratio of debt over current revenue of 77% adjusted for transfers to the Autonomous Community and the GSA is expected. In 2019 this is expected to reduce slightly to 75%.

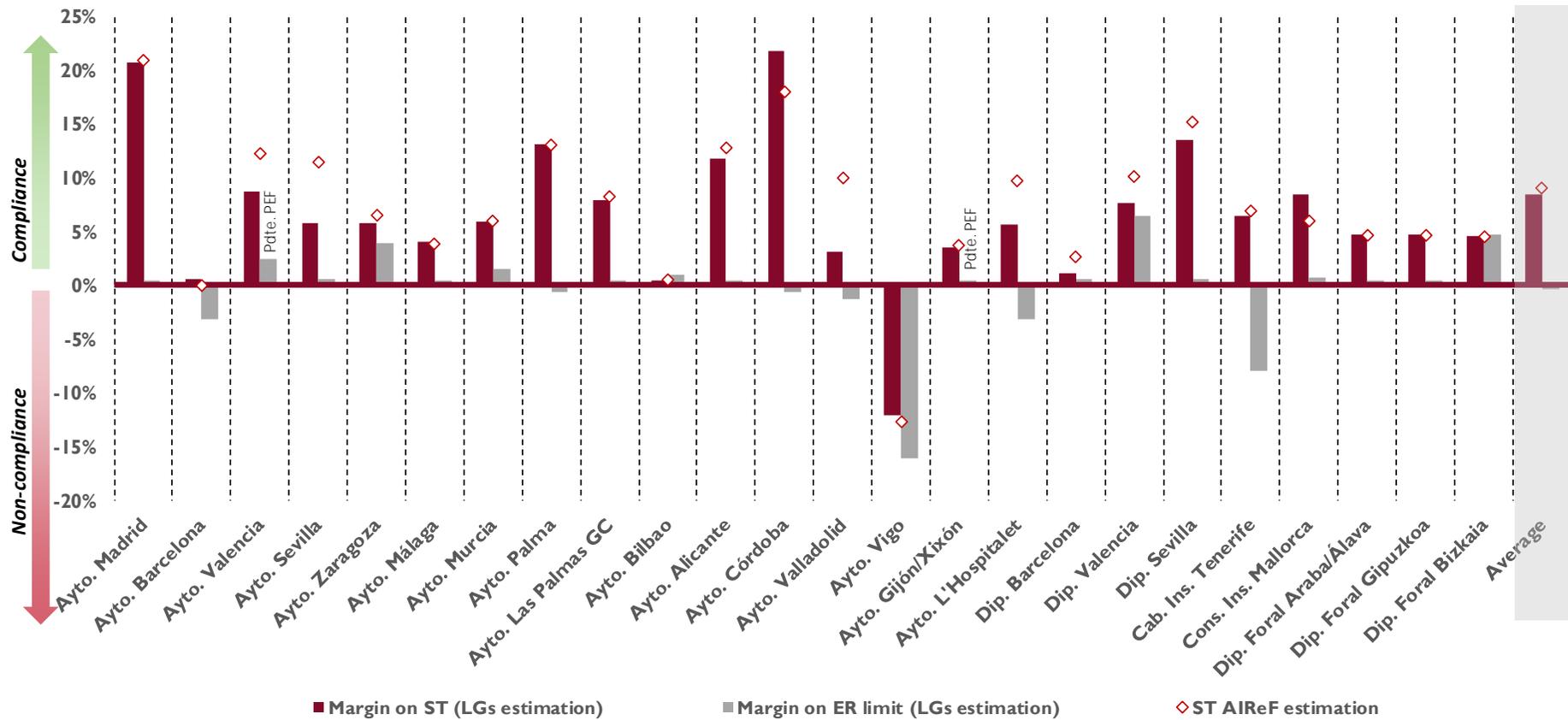
The following figures provide information on this group of large LGs:

- Figure 1: Displays a joint vision of compliance with the stability target and expenditure rule at the end of 2018 according to data provided by the corporations, as well as AIReF's estimate of compliance with the stability target and the expenditure rule at year-end, in the event of a discrepancy in its sign.
- Figure 2: Presents a comparative view of compliance with the stability target in 2019 according to the information provided by the LGs on the main budgetary lines for the current year, as well as AIReF's estimates.

Figures 1 and 2 present their results in terms of margin on the respective target or rule and include the average behaviour of the group, which is highly influenced by the weight of the City Council of Madrid in the set. 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 legal one or that established in the EFP) for each. In relation to the stability target this margin is calculated as a percentage of non-financial revenue and in relation to the expenditure rule as a percentage of the expenditure limit that allows for compliance.

- With regards to the debt limit (ratio of debt to current revenue), Figure 3 shows its evolution between 2012 and 2017, the last financial year ended and the local corporation's estimate for the 2018-2019 period. As AIReF has mentioned in previous reports, this group has made an important effort in reducing the debt since the LOEPySF came into force, in 2012, until 2017. On average, this group has reduced the debt from 100% of average current revenue to 58%. This trend is expected to continue this year, with the group's average debt ratio standing at around 44%.

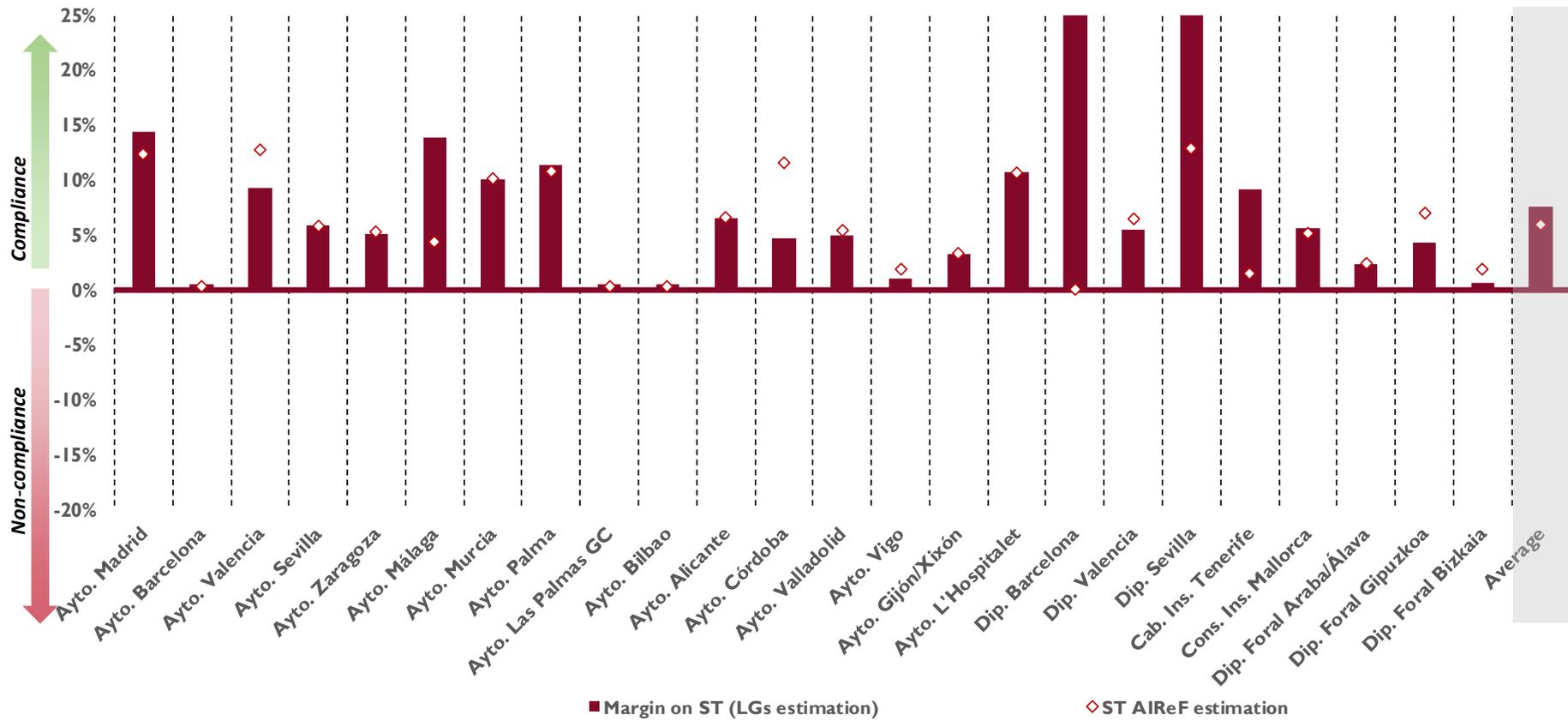
FIGURE 1. 24 LARGE LGS ESTIMATION OF THE DEGREE OF COMPLIANCE WITH THE STABILITY TARGET AND EXPENDITURE RULE AT THE END OF 2018



Note: Margin on ST: Difference between the expected lending/borrowing and the balance target as a percentage of non-financial revenue.

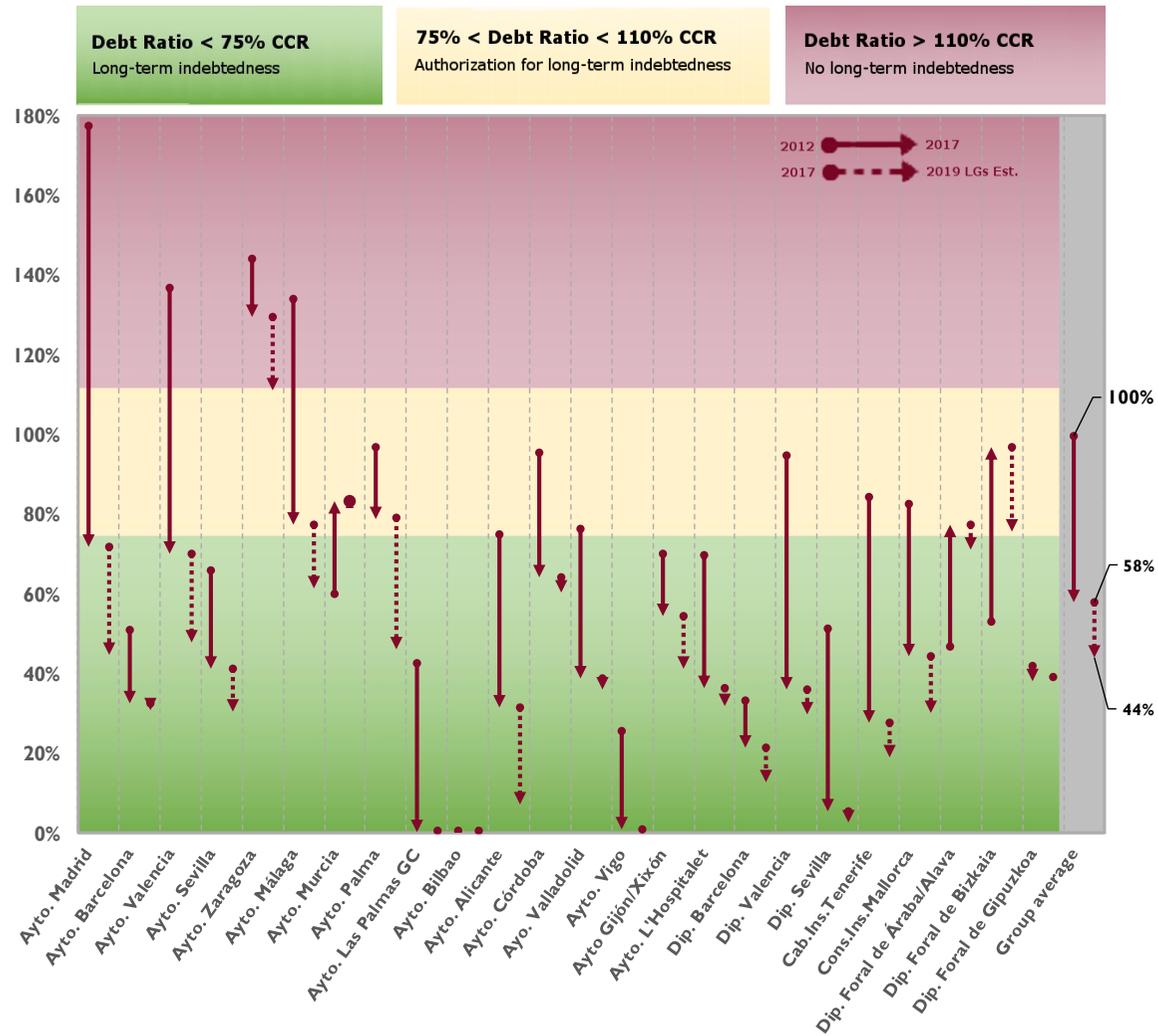
Margin on ER limit: Difference between the estimated computable expenditure in 2018 and the expenditure limit of the ER as a percentage of the aforementioned limit.

24 LARGE LGS ESTIMATION OF THE DEGREE OF COMPLIANCE WITH THE STABILITY TARGET AT THE END OF 2019



Note: Margin on ST: Difference between the expected net lending/borrowing and the target as a percentage of non-financial revenue.

EVOLUTION OF INDEBTEDNESS OF THE LGS 2012-2017 AND 2018 AND 2019 ESTIMATE PERCENTAGE OF DEBT OVER CONSOLIDATED CURRENT REVENUE



2 ANALYSIS OF THE LGS WITH MEDIUM-TERM SUSTAINABILITY PROBLEMS

This report continues to monitor the City Councils in which AIReF identified sustainability problems in the medium and long term. Since the end of 2016, AIReF has included those LGs that present the greatest problems for future sustainability in the individual evaluation of the LGs. These are corporations that have to be analysed with a broader view than that required by the evaluation of the annual compliance with the fiscal rules, since the reversion of their situation requires medium-term reforms of greater impact. AIReF maintains the subjective scope of LGs with over 20,000 inhabitants selected in previous reports for presenting risks based on the eligibility criteria that are summarised below, the combination of which defines the situation of medium-term sustainability:

- As an anchor variable and indicator of financial sustainability, the ratio of outstanding debt to current revenue.
- As an indicator of the sustainability of commercial debt, the treasury surplus for general expenditure.
- As a warning of commercial debt arrears, the average payment period (APP) to suppliers.

The 18 City Councils with a population of over 20,000 inhabitants selected were: Alcorcón, Algeciras, Almonte, Aranjuez, Ayamonte, Cuenca, Gandía, 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. In addition, when applying the aforementioned

criteria, the City Council of Los Barrios would be included in the analysis of sustainability risks, however, there was no information for this City Council available at the time, and therefore it is not included in the evaluation.

Meanwhile, information has been requested from 6 more City Councils as they present, according to the most recent data available, a substantial negative evolution regarding their debt position. The City Councils of Arcos de la Frontera, Arganda del Rey, Barbate, Caravaca de la Cruz, Los Palacios y Villafranca and Puerto Real presented, in the most recently observed data, values close to 150% on their financial sustainability indicator and/or 100 days of delay in payment in their commercial debt sustainability indicator, so AIReF has requested information to assess their capacity for future reversion.

All selected City Councils have complied with the duty to collaborate with AIReF, except Barbate and Caravaca de la Cruz. All selected City Councils, as well as MINHAC's Information Centre, have complied with the duty to collaborate with AIReF, providing the information needed for the analysis, with the exception of the City Councils of Barbate and Caravaca de la Cruz that have not complied with the duty of cooperation regulated in article 4 of Organic Law 6/2013, on the creation of AIReF, and, for this reason, a warning must be published on this Institution's webpage. The assessment and classification of the City Council of Caravaca de la Cruz has been carried out using information provided by MINHAC; however this is not the case with the City Council of Barbate that has not provided the required data to MINHAC. In turn, the City Council of Arcos de la Frontera has sent part of the information requested but not in the standard form that allows it to be processed, although it has committed to send this as soon as possible, with its evaluation having been possible because of information provided by MINHAC.

The risk situations of the selected LGs have been classified based on the combined analysis of the global passive position and the average capacity to return to a sustainable position in the medium term. In this report, the combined analysis of the global passive position of each LG in terms of sustainability deduced from the last year-end available and the average capacity to return to a sustainable situation in the medium term, with constant revenue and expenditure policies, has made it possible to establish five large classification groups in view of the number of years in which, stabilising the average budgetary response observed, the LG could return to a sustainable situation (debt of less than 75% of current revenue):

- Low risk: Possible return in a period equal to or less than 10 years.
- Moderate risk: Possible return in a period of between 10 and 20 years.
- High risk: Possible return in a period of between 20 and 40 years.

- Very high risk: Possible return in a period of between 40 and 100 years.
- Critical situation: On the basis of no policy changes, a return to a sustainable situation is not considered possible.

Within these classification groups, the specific situation of each City Council and the improvement or worsening of its trend, with respect to the conclusions drawn in the last Report, is determined by the combined effect of its positive results, with which it can gradually reduce its debts, the policies adopted for the current period, particularly its expenditure policies, and its possible future consolidation or expenditure generation in later periods.

Figures 4A and 4B detail each LG's risk rating (separately for the corporations selected in previous reports or that have submitted information and are being evaluated for the first time) according to the three following groups of elements that define their past structural situation and their future prospects:

- Past structural situation: relative passive position and APP (last observed data).
- Capacity to return to a sustainable situation in the medium or long term: average balance of current operations and average lending capacity of the last two year-ends (2017 and 2016).
- Future prospects: estimated trend of improvement or worsening of their passive situation, according to forecasts provided by City Councils for the end of 2018 and 2019 and AIRcF's estimates of their probability of occurrence.

RATING OF THE RISK SITUATION AND ESTIMATED FUTURE TREND OF THE LGS WITH SUSTAINABILITY PROBLEMS ALREADY IDENTIFIED IN PREVIOUS REPORTS (SORTED WITHIN EACH LEVEL BY POPULATION SIZE).

Local Government	Main parameters				Trend Forecast (2018-2019)	Risk level
	Structural situation		Return capacity			
	(Debt+CB)/CCI	APP	Adjusted average current balance / CCI	Av. capacity /CCI		
Jerez de la Frontera	457% →	266 →	2% →	6% ↓	→	Critical
Parla	988% →	323 ↑	-13% →	-10% →	→	
Jaén	565% →	541 ↘	-34% →	-57% →	→	
Gandia	370% →	267 ↑	7% →	7% →	→	Very High
Totana	392% →	254 →	7% →	9% →	→	
Barrios (Los)	640% →	148 ↑	6% →	1% ↑	→	
Algeciras	187% →	384 ↗	3% →	3% →	↘	HIGH
Aranjuez	309% →	460 ↓	9% ↗	14% ↘	→	
Navalcarnero	441% →	350 ↗	12% ↗	12% ↗	↗	
Isla Cristina	126% →	374 →	1% ↑	1% ↑	↑	
Ayamonte	135% →	295 →	2% →	3% →	→	
Alcorcon	267% →	140 ↑	15% →	20% ↘	→	Moderate
Sanlúcar de Barrameda	172% →	79 ↑	11% →	12% ↘	→	
Línea de la Concepción (La)	272% →	19 ↗	19% ↘	19% ↘	↘	
San Andrés del Rabanedo	288% →	472 ↓	14% →	14% ↗	→	
Granada	90% →	132 ↘	7% ↘	8% ↘	→	LOW
Valdemoro	142% →	326 ↗	16% ↘	17% ↘	→	
Almonte	77% ↘	182 →	1% ↑	-6% ↑	→	

Local Government	Main parameters				Trend Forecast (2018-2019)	Risk level
	Structural situation		Return capacity			
	(Debt+CB)/CCI	APP	Adjusted average current balance / CCI	Av. capacity /CCI		
Cuenca	115% →	47 ↑	9% →	9% →	→	Without risk that requires structural analysis

Trends	
↑	Improvement
↗	Slow Improvement
→	Maintenance at same level
↘	Slow worsening
↓	Worsening

FIRST ANALYSIS OF THE RATING OF THE RISK SITUATION AND ESTIMATED FUTURE TREND OF THE LGS WITH SUSTAINABILITY PROBLEMS IDENTIFIED ACCORDING TO A STRUCTURAL VARIABLE (SORTED WITHIN EACH LEVEL BY POPULATION SIZE).

Local Government	Main parameters				Trend Forecast (2018-2019)	Risk level
	Structural situation		Return capacity			
	(Debt+CB)/CCI	APP	Adjusted average current balance / CCI	Av. capacity / CCI		
Arganda del Rey	168% →	27 ↓	3% →	4% →	→	HIGH
Palacios y Villafranca (Los)	246% →	334 →	4% →	5% ↘	→	
Arcos de la Frontera	204% →	491 ↓	10% ↗	6% ↗	↗	Moderate
Puerto Real	216% →	155 ↓	18% ↘	20% ↘	→	LOW
Caravaca de la Cruz	109% →	168 ↑	5% →	5% →	→	

Trends	
↑	Improvement
↗	Slow Improvement
→	Maintenance at same level
↘	Slow worsening
↓	Worsening

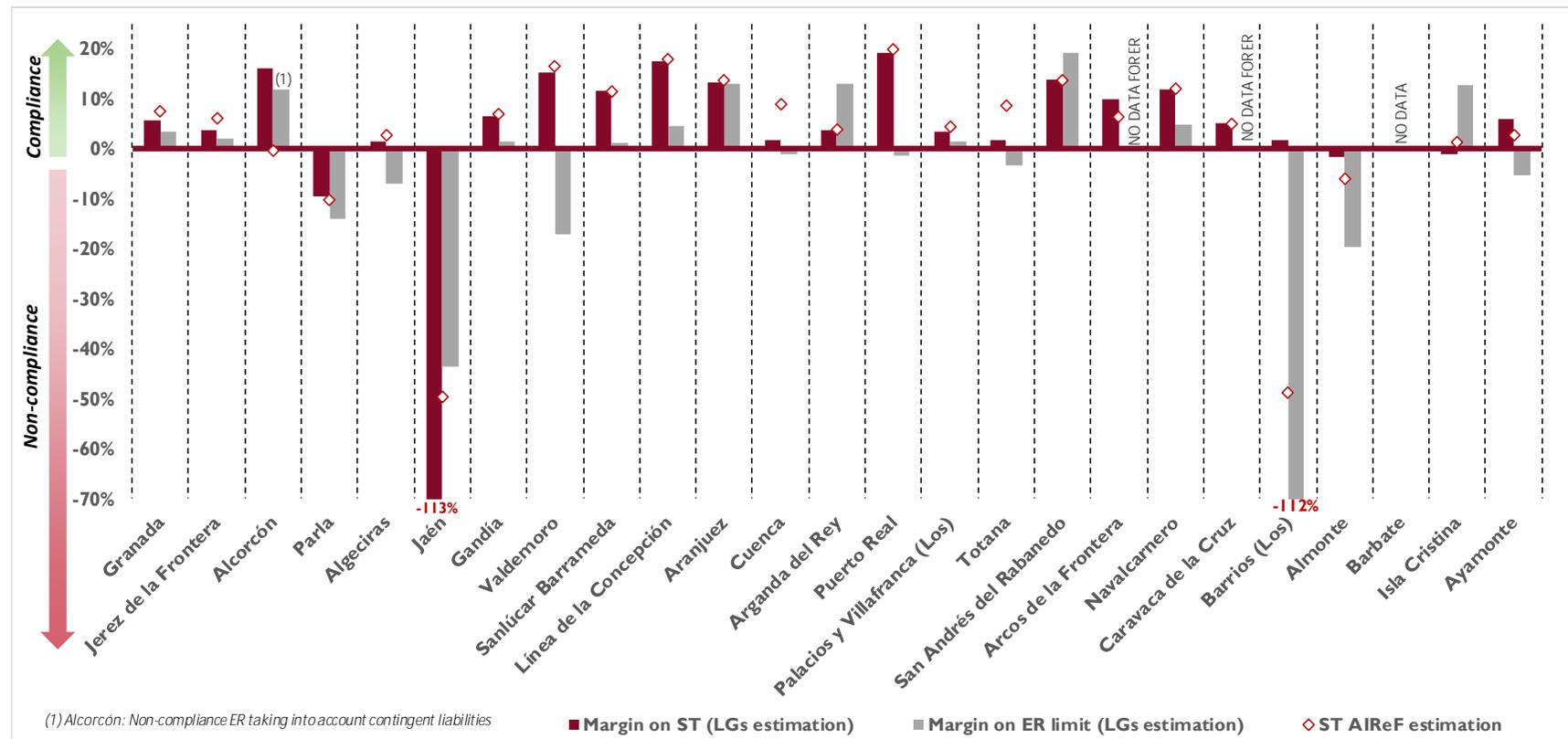
The rating results obtained show that the City Council of Cuenca is excluded from the analysis due to its significant improvement and that the City Councils of Almonte, La Línea de la Concepción and San Fernando de Henares, which are recovering slightly, have improved their rating. The rest of the City Councils selected maintain their position with the latest settled data. AIRcF maintains the conclusions drawn in July's report that classify the City Councils of Jerez de la Frontera, Parla and Jaén as being in a critical sustainability situation. The LGs with high risk rating outlined in the previous report have been divided into two in order to differentiate between those that will be able to return to a sustainable situation in under 40 years and those that will take longer than 40 but less than 100 years. Thus, the City Councils of Gandia, Totana and Los Barrios have been classified as very high risk. The City Councils of Algeciras, Aranjuez, Arganda del Rey, Los Palacios y Villafranca, Navalcarnero, Isla Cristina and Ayamonte have been classified as high sustainability risk. The City Councils of Alcorcón, Sanlúcar de Barrameda, La Linea de la Concepcion, San Andrés del Rabanedo and Arcos de la Frontera have been classified as moderate risk. Finally, the City Councils of Granada, Valdemoro, Puerto Real, Caravaca de la Cruz and Almonte have been classified as low risk.

On the other hand, whilst the last report recommended several City Councils to adopt measures to reverse their situation, only the City Councils of Alcorcón, Aranjuez, Isla Cristina, Navalcarnero and San Andrés del Rabanedo have implemented the suggested measures and therefore made a possible future impact. These City Councils have complied with the provisions of article 5 of the Organic Law establishing AIReF, which regulates the principle of "comply or explain" that means that the administrations addressed should follow AIReF's recommendations or, if not, they must provide justification for not doing so. The City Councils of Algeciras, Gandia, Sanlúcar de Barrameda and Valdemoro responded to the recommendations, but they have not implemented the suggested measures to reverse their current situations of non-sustainability. The City Councils of Ayamonte, La Linea de la Concepcion and Totana have not applied the "comply or explain" principle as they have not responded to the recommendations made.

Although these City Councils require a more significant reform than that determined by annual compliance with the fiscal rules, this compliance has been evaluated as a mechanism for the gradual reversal of their risk situation. Graph 4 shows the expected compliance with the stability target and the expenditure rule at the end of 2018, in accordance with the information provided by the LGs, as well as AIReF's estimate of compliance with the stability target. Meanwhile, Figure 5 presents a comparative view of compliance with the stability target in 2019 according to the information provided by the LGs on the main budgetary lines for the current year, as well as AIReF's estimates. The situation of compliance or non-compliance with the stability target is shown in percentage terms over their non-financial revenue of the margin (excess or shortfall) over the legal balance target. In the case of the expenditure rule, the margin (excess or shortfall) is shown over the computable expenditure limit. Finally, regarding the debt limit (ratio over current revenue), Figure 6 shows the evolution of this between 2012 and 2017 along with AIReF's estimates for 2019. As can be seen, most of the City Councils in this group increased their debt-to-GDP ratio between 2012 and 2017, with this being over 110%, which prevents them from entering into new operations.

From the conclusions drawn in Figures 4, 5 and 6, it can be said that, despite the fact that most of the LGs were forecasted to obtain a surplus, their medium-term sustainability has not improved since their estimated debt-to-GDP ratios at the close of 2019 have not reduced. As can be seen in the aforementioned figures, most of these City Councils forecasted a surplus, both at the end of 2018 and 2019; however, their debt-to-GDP ratio does not improve, mainly as a result of a reduction in commercial debt.

24 LGS WITH STRUCTURAL PROBLEMS. ESTIMATE OF THE DEGREE OF COMPLIANCE WITH THE STABILITY TARGET AND EXPENDITURE RULE IN 2018

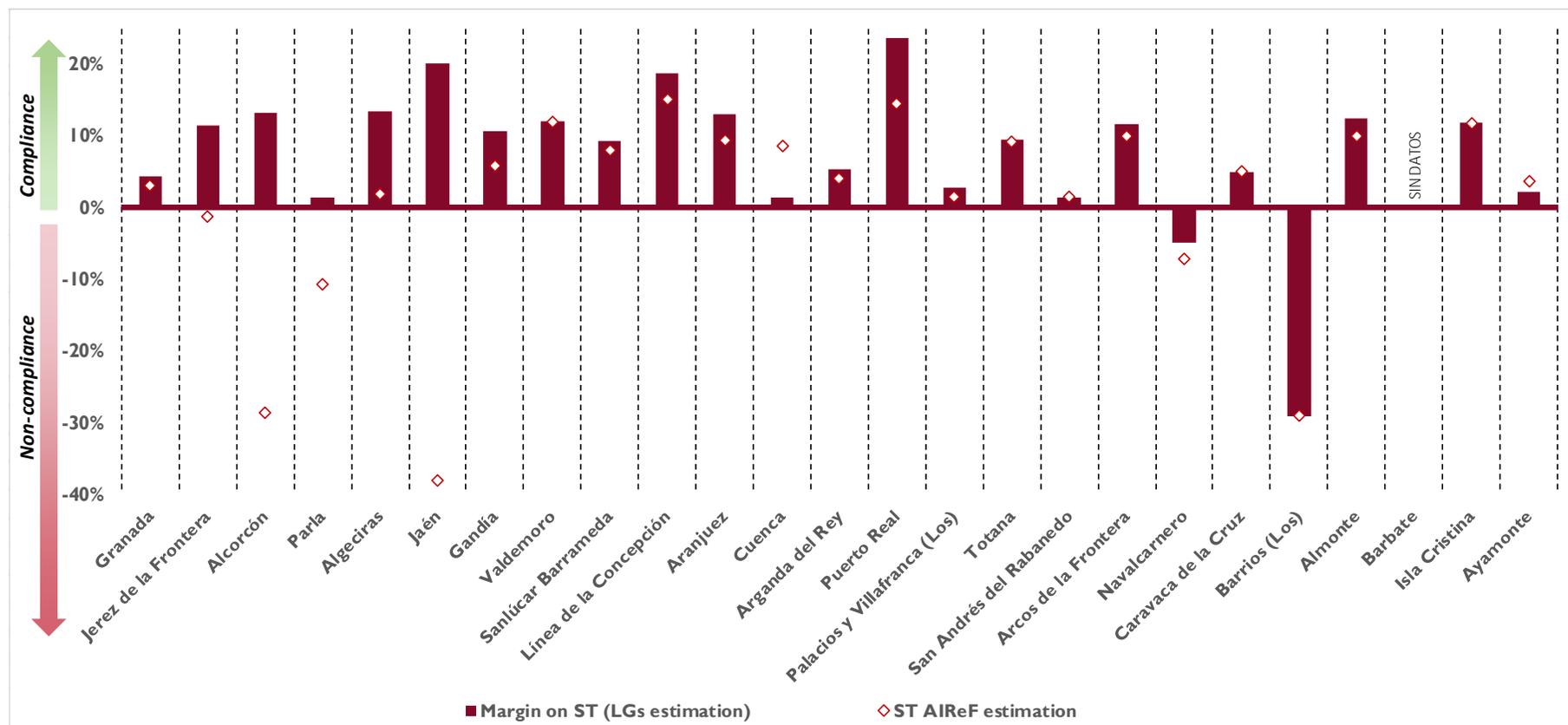


Note:

Margin on ST: Difference between estimated lending/borrowing and the balance target as a percentage of non-financial revenue.

Margin on ER limit: Difference between the estimated computable expenditure in 2018 and the expenditure limit of the ER as a percentage of the aforementioned limit.

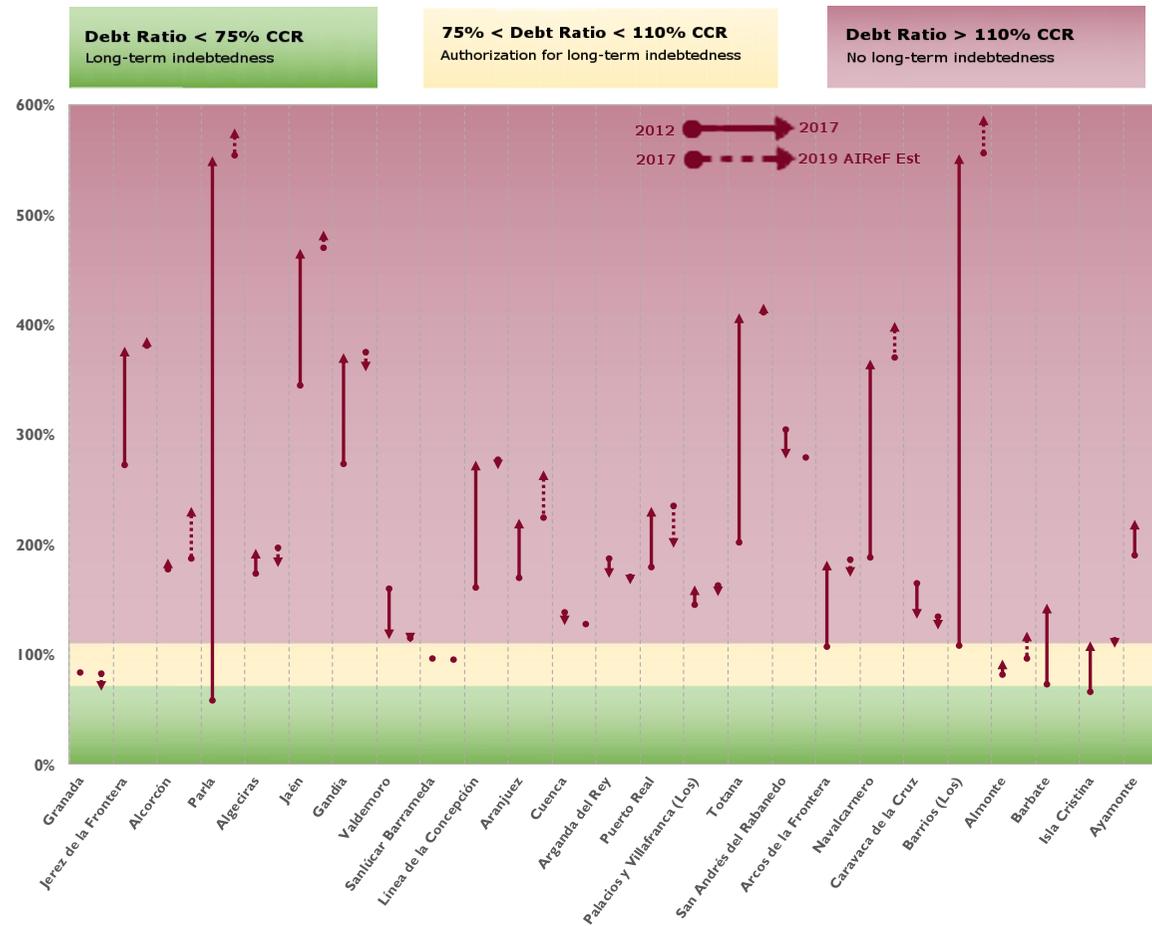
24 LGS WITH STRUCTURAL PROBLEMS. ESTIMATE OF THE DEGREE OF COMPLIANCE WITH THE STABILITY TARGET IN 2019



Note:

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

EVOLUTION OF INDEBTEDNESS OF THE 18 LGS 2012-2017 AND ESTIMATE FOR 2018 AND 2019 (PERCENTAGE OVER CURRENT CONSOLIDATED REVENUE)



3 RECOMMENDATIONS

In previous reports, AIREF has made a number of recommendations to MINHAC, in relation to its role as manager and coordinator of the LGs' financial guardianship bodies, for it to promote the specific regulatory amendments that establish the content of these competences and the mechanisms to be applied when the exercise of these competences is not carried out in accordance with what has been established. It has also been recommended, in order to ensure transparency, to amend the Order concerning obligations to supply information so that the LGs' data that are published periodically are up to date and so that the calculation of the expenditure rule is incorporated into the information that the LGs provide on their main budgetary lines, adopted budgets and execution.

Finally, it has also been reiterated that it should convene and lead, for the City Councils of Jerez de la Frontera, Parla and Jaén, a committee of experts to analyse the reasons for which these City Councils have a critical risk level with regards to sustainability and to propose solutions.

MINHAC has generally responded positively to all of these recommendations, expressing its desire to strengthen communication channels with the City Councils, as well as to have the best and most appropriate information possible available and publish this periodically, and to include the comptroller's report on compliance with the expenditure rule in the preventive stages of the budgetary cycle.

Although these recommendations are not reiterated as it is considered, in part, that MINHAC has explained why it wants to set them aside, due to the fact that they affect relevant topics within AIREF's field of competence, they remain active and are published under the designation that they had in the last report, in the recommendations section of its web page. Notwithstanding

the foregoing, MINHAC is prompted to report on the progress that it has made in this regard.

New recommendations

In its July 2018 report, AIReF recommended that MINHAC, in the absence of regulatory development, should implement, document and publish the interpretation of the targets agreed in the EFPs for each of the fiscal rules, in order to homogenise the implementation of the LOEPySF throughout the national territory, which would make it possible to prevent unequal treatment.

Said document, which would formally need to provide sufficient power so that its follow-up is linked to all the LGs and guardianship bodies, should include, in addition, a solution to other aspects that, experience has shown, affect the assessment of compliance with fiscal rules within the framework of an EFP in force, making all fiscal rules consistent with each other. The aspects to be addressed would include, among others, that of delimiting the reasons for which the computable expenditure limit of the EFPs can be amended either upwards or downwards, as well as the treatments of time lags in the margins of compliance within a the period of validity if an EFP.

For this reason, **AIReF recommends:**

- 1. That MINHAC speed up the adoption and publication of a formal document that covers the interpretation to be followed in the application of the targets agreed in the EFP for each fiscal rule, ensuring consistency between them, and deal with all those aspects that experience has shown require unified interpretative criteria.***

LGs subject to individual analysis

In the 2018 Reports on the budgets and expected compliance with the fiscal rules, AIReF recommended that the City Council of Valencia approve an EFP due to non-compliance with the expenditure rule in 2017. In response to this recommendation, the aforementioned City Council indicated that the Report of its General Intervention Board does not recognise non-compliance with this rule, setting the maximum that would be allowed by the application of the rate approved each year as the limit. As it indicated to AIReF at the end of September last year, its guardianship body, the Valencian Region, maintained contacts with the City Council, but without implementing any actions, which they communicated to us, to apply the LOEPySF. In the aforementioned

reports, AIReF already highlighted that, in the absence of regulatory changes or developments, the application and interpretation of the rule should be homogeneous for all Public Administrations without allowing for differing interpretations of the rules and procedures regulated in the LOEPySF by each Public Administration, which create situations of unequal treatment.

Meanwhile, the City Council of Gijón failed to comply with the expenditure rule in 2017, which is why it should have approved an EFP with commitments for 2018 and 2019 although, to date, this EFP has not been approved as it does not have the approval of its Plenary. As AIReF has indicated in previous reports, this delay in approval due to lack of agreements prevents the LG from having the necessary planning to avoid any future non-compliances, and it does not invalidate the application of graduality of the Law for cases of non-approval of an EFP.

For this reason, **AIReF recommends**:

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- 2. That the City Councils of Valencia and Gijón implement the graduality of the LOEPySF, according to which non-approval of an EFP results in the application of the corrective measures that, due to non-compliance of the same, are established in article 25 of the aforementioned Law; in particular, the adoption of non-availability agreements due to the cited legal non-compliance.**
 - 3. That the Valencian Region and the Principality of Asturias, the guardianship bodies of the City Councils of Valencia and Gijón, respectively, carry out the actions necessary to ensure the application of the corrective measures indicated.**
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The City Councils of Barcelona and Vigo and the Island Council of Tenerife do not forecast compliance with the expenditure rule in the 2018 settlement, with their forecasts matching AIReF's estimates, therefore if this non-compliance is verified in its approval, they must approve the corresponding EFP, as required by article 21 of the LOEPySF, whose final approval is the responsibility of its guardianship bodies.

For this reason, **AIReF recommends**:

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- 4. That the City Councils of Barcelona and Vigo and the Island Council of Tenerife, upon verifying non-compliance with the expenditure rule in the 2018 settlements, promote the approval of the corresponding EFP, in order to have the legal framework within the legally established deadlines.**
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5. ***That the Region of Catalonia, Galicia and the MINHAC, as the guardianship bodies of the City Councils of Barcelona and Vigo and the Island Council of Tenerife, respectively, monitor the actions that ensure the timely approval of the presentation and delivery of the EFPs that would have to be prepared if non-compliance is confirmed.***
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The City Council of Barbate has not forwarded to AIReF the information requested for its evaluation, which has led to the failure to fulfil the duty of collaboration and shall lead to a warning on this institution's website. It has also not been possible to carry out this evaluation with information supplied by MINHAC since this was not available in their databases as the City Council had not provided this, therefore failing to comply with Order HAP/2105/2012, which establishes the obligations to submit information provided for in the LOEPySF, and whose non-compliance gives rise to the responsibilities established in article 19 of the aforementioned Order.

For this reason, **AIReF recommends:**

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6. ***That the City Council of Barbate complies with the obligations to disclose economic-financial information set out in Order HAP/2105/2012, which establishes the obligations to supply information provided for in the LOEPySF.***
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PRESIDENT OF THE INDEPENDENT AUTHORITY
FOR FISCAL RESPONSIBILITY



José Luis Escrivá