SUPPLEMENTARY REPORT FOR THE INDIVIDUAL EVALUATION OF THE MAIN BUDGETARY LINES OF THE LOCAL GOVERNMENTS FOR 2019

REPORT 4/19

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-sectors[1], 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.

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

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 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 2018[2] 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.

In addition, AIReF 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 AIReF, 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.

[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.

AIReF 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.