

AIReF forecasts a surplus of 0.2% for Local Governments in 2022, although it points to several uncertainties

- The institution warns of the existence of significant uncertainties that might alter the result. These include the expenditure that is eventually executed in the year and the effect on revenue of the recent ruling on municipal capital gains tax
- Of the large LGs, 11 expect to obtain deficits in 2021, although AIReF reduces this number to eight: the city councils of Barcelona, Bilbao, Cordoba, Valladolid, Vigo, the provincial councils of Seville and Barcelona and the Island Council of Tenerife
- In 2022, only the city councils of Bilbao and Valladolid will post a deficit, according to AIReF's forecasts. The city council of Palma has not submitted information on 2022. Therefore, AIReF has not been able to assess its situation
- AIReF includes in the Report a good practice guideline that the large Local Governments should have a medium-term strategic plan that will ensure the efficiency and quality of the projects receiving the planned increased expenditure for 2021 and 2022, while analysing the future implications of the consolidation of said spending

The Independent Authority for Fiscal Responsibility (AIReF) today publishes the Supplementary Report for the Individual Evaluation of the Main Budgetary Lines of the 2022 Budgets of the Local Governments (LGs), in which it forecasts a surplus of 0.2% for the sub-sector in 2022, 0.1 points down on the 2021 year-end forecast. This reduction is the result of expenditure rising above the increase in revenue. However, AIReF warns of the existence of significant uncertainties that might alter the result eventually achieved. These include the expenditure that is actually executed in the year and the effect on revenue of the recent ruling on municipal capital gains tax.

PRESS RELEASE
05/11/2021

The analysis of the main lines of the 2022 budgets of the LGs is framed within the scenario resulting from the pandemic, following the extension of the suspension of compliance with fiscal rules until 2022. In this context of suspended fiscal rules, AIReF's preventive mission takes on even greater importance as a guarantor of the sustainability of public finances.

On October 25th AIReF issued the [Report on the Main Budgetary Lines and Draft Budgets of the GG for 2022](#), which contained an assessment of all sub-sectors, including the local sub-sector. This report, at a local level, is now supplemented and updated with the individual evaluation of the 24 large LGs and an analysis of those governments that have the greatest sustainability risk in the medium term.

In its October 25th report, AIReF concluded the local sub-sector could close 2021 with a surplus of close to 0.3% of GDP.

On the one hand, this result is due to the effect of the economic recovery on revenue, which might reach 2019 levels. On the other hand, the limited spending capacity of LGs would moderate the expansion in expenditure driven by the pandemic and the suspension of the spending rule that allows the application of the surplus cash from previous years to additional spending.

For 2022, AIReF estimated that the LGs could achieve a surplus of 0.2% of GDP, 0.1 points lower than expected in 2021. The reduction in the local balance in 2022 would mainly be the result of the realisation of spending financed with savings from previous years, as well as the impact of the negative settlement of the financing system for 2020. However, there is uncertainty about the amount of said settlement and about the effect on revenue of the recent Constitutional Court judgement on municipal capital gains tax and the consequent reform of the current regulation.

Individual evaluation by LG

Of the large LGs, 11 expect to obtain a deficit in 2021. However, AIReF's estimates that this number could fall to eight: the city councils of Barcelona, Bilbao, Cordoba, Valladolid and Vigo, as well as the provincial councils of Seville and Barcelona and the Island Council of Tenerife.

For 2022, only six of the large Local Governments analysed expect to record a deficit, with all of them improving on the expected results for 2021, with the overall

PRESS RELEASE

05/11/2021

surplus standing at around €500m. In AIReF's forecasts, only the city councils of Bilbao and Valladolid would post a deficit.

Since 2018, the surplus of the group of large LGs will have fallen by over 80%. Particularly noteworthy is the surplus of the city council of Madrid, which will have fallen by 90%.

Only five of the large LGs expect to increase their computable expenditure in 2021 at a rate of less than 6%. The computable expenditure of the group of large LGs has grown by almost 20% from 2019 to 2021, while that of the total sub-sector has grown by around 3%. This growth is affected by the application to expenditure in 2021 of the cash surpluses reported by the group, which account for over 30% of the surplus that they had in 2020. Finally, the growth in expenditure in 2021 might become consolidated in 2022 as this group of LGs estimates growth in personnel and goods and current expenditure of close to 6.5%.

LGs with medium-term sustainability problems

The 25 city councils with sustainability risks selected for the evaluation are the same as in the previous cycle, except for Sanlúcar de Barrameda and Isla Cristina, which have been removed from the analysis as they have shown improvements in their sustainability position and those of Arroyomolinos, Lepe and San Fernando de Henares that enter this risk analysis for the first time.

All the selected city councils maintain their risk rating, except those of Algeciras, Los Palacios y Villafranca and Navalcarnero, which worsen their rating; those of Ayamonte and Totana, which improve; and that of Valdemoro, which once evaluated, is removed from the analysis due to its notable improvement.

AIReF has rated the city councils of Alcorcon, Barbate, La Linea de la Concepcion, Los Palacios y Villafranca, Navalcarnero and Parla with uncertainty as they failed to provide the information requested. Of these, only the city council of Barbate has failed to comply with its duty to cooperate. The city councils of Lepe, Arroyomolinos and San Fernando de Henares also failed to cooperate and have therefore not been rated.

Good practices

In this report, AIReF provides the following good practice guidance to each of the large Local Governments analysed in this report: that they should have a medium-term strategic plan that ensures the efficiency and quality of the projects receiving the planned increased expenditure for 2021 and 2022, while analysing the future

PRESS RELEASE
05/11/2021

implications of the consolidation of said spending.