

AIReF RECOMMENDS ELEVEN LOCAL GOVERNMENTS TO ANALYSE THE INCREASES IN EXPENDITURE SINCE 2019 AND AVOID FURTHER INCREASES WITHOUT PERMANENT FINANCING

- **The Independent Authority for Fiscal Responsibility notes that the average growth in computable expenditure in 2022 was more than 9%, a figure that is unprecedented and follows an increase of more than 7% in 2021**
- **Between 2019 and 2022, the period in which the fiscal rules have been suspended, the eligible expenditure of large local governments has grown by 23%**
- **The local governments to which the recommendation is addressed are the city councils of Alicante, Barcelona, Cordoba, Madrid, Palma and Valladolid, the provincial councils of Valencia and Seville, the Cabildo of Tenerife, the Consell of Mallorca and the Diputación Foral of Gipuzkoa**
- **AIReF warns that maintaining these rates in 2023 would mean a deterioration in the balance of the large local governments and a risk to sustainability**

The Independent Authority for Fiscal Responsibility (AIReF) today published the Supplementary Individual Assessment Report on the 2023 Budgets of Local Governments, which completes the assessment of the local sub-sector included in the Report on the Public Administrations as a whole with an individual analysis and as a group of the 24 largest local governments. In that report AIReF makes two recommendations to the eleven local governments that have recorded the biggest increases in expenditure in recent years to analyse the increases recorded since 2019 and to avoid further increases in expenditure or decreases in revenue of a structural nature whose permanent financing is not guaranteed. This analysis must be sent to AIReF.

The local governments to which the recommendation is addressed are the city councils of Alicante, Barcelona, Cordoba, Madrid, Palma and Valladolid, the provincial councils of Valencia and Seville, the Cabildo of Tenerife, the Consell of Mallorca and the Diputación Foral of Gipuzkoa.

AIReF points out that the average growth in computable expenditure in 2022 was more than 9%, a figure that is unprecedented in previous years and comes after an increase of more than 7% in 2021. These increases are mainly due to the expansion of current spending. Between 2019 and 2022, the period in which the fiscal rules have been suspended, the eligible expenditure of the large local governments has grown by 23%.

The city councils of Alicante, Madrid, Palma, Valladolid and Vigo, the Provincial Council of Bizkaia, the Consell of Mallorca and the Cabildo of Tenerife have increased their eligible expenditure in 2022 by more than 9% above the group average. Particularly noteworthy is the increase in eligible expenditure in the Cabildo of Tenerife, of more than 40% last year, having been around 13% in 2021. Likewise, the Seville Provincial Council

increased this expenditure in 2021 by nearly 140%, although in 2022 the increase over this level was 1%.

AIReF points out that maintaining these rates of growth in computable expenditure in 2023 would mean a deterioration in the balance of the large local and regional governments and a risk to sustainability. AIReF also recalls that the European Council's specific recommendation for Spain sets quantitative limits on the growth of current primary expenditure. In this context, it issues the recommendations.

AIReF includes in the report the estimates of the expected closure in 2023 for the large local governments once the positive effect of the negative settlement of the 2020 financing system and its offsetting have been filtered out. The aim is to show the results that depend on the management of the Corporation itself, in homogeneous conditions with other financial years, as large local governments have had a negative impact of 700 million in 2022 and will have a positive impact of more than 500 million in 2023.

Surplus of 1% of revenue

According to AIReF's forecasts for 2023, the 24 large local and regional governments, without the effect of the 2020 settlement, will post a surplus of 1% of their revenue. These forecasts are worse than those included in last October's line report, basically as a result of the 2022 close (surplus of 2%). They are very close to those communicated by the local governments themselves and consistent with the forecast at sub-sector level. In the case of the Provincial Councils of the Basque Country, to which this effect is not applicable, AIReF forecasts a worsening of the balance in 2023 as a result of the worse reported year-end of 2022.

In 2023 AIReF only expects Barcelona, Madrid and Valladolid City Councils and Seville Provincial Council to run deficits as a result of their management. If the positive impact in 2023 of the 2020 settlement and its offsetting is included, only Barcelona City Council and Seville Provincial Council will record a deficit in 2023. In this respect, it should be noted that Barcelona City Council has recorded a deficit every year during the period of suspension of fiscal rules.

Reduction of the surplus since 2018

From 2018 to 2022, this group of large local governments has reduced its surplus, on a like-for-like basis, by almost 80% (around 1.8 billion), a percentage that would rise to 90% if AIReF's forecasts for 2023 are included. This reduction has occurred unevenly across institutions. From 2018 to 2023, the city councils of Las Palmas de Gran Canaria, Madrid, and Valencia and the Seville Provincial Council have reduced their surpluses by more than 10 points over their revenues. In 2018, Madrid City Council had a surplus of more than 1 billion, which it has reduced in full in 2022, and AIReF expects it to run a slight deficit in 2023. For its part, Seville Provincial Council has seen its 2018 surplus reduced by more than 26 points in the aforementioned period, as a result of the application of carryovers.

In terms of debt, in 2023 the large local governments will have an average debt ratio of 39% of their current revenue. All the ordinary local governments are below the 75% limit, a ratio above which borrowing is subject to authorisation conditions or is not allowed by law.