



Validation of Royal Decree Law

## Deductions will not be obligatory in order for suppliers to receive outstanding payments

- The mechanism includes health, education and social services contracts entered into by autonomous communities
- The Council of Ministers will tomorrow approve another Royal Decree Law that will clarify the role of the administrator and will safeguard the powers of autonomous communities

**8 March 2012.** The Spanish Parliament has approved the extraordinary financing mechanism for paying local authority suppliers who, from 1 May, will begin to receive their outstanding invoice payments.

In his speech defending the Royal Decree Law, the Minister of Finance and Public Administrations, Cristóbal Montoro, ruled out any obligatory deductions from payments to suppliers. He also explained that the seasoning of the debt will determine its priority for payment.

This large-scale financial operation will inject liquidity totalling €35,000 million into all sectors of the economy and will help to tackle one of the major problems of the Spanish economy, the delays in payment of invoices by Public Administrations.

Montoro underlined the pressing need to provide urgent funding, to contain jobs and reorganise the financial sector, as Spain should not be promoting an image of Administrations that fall behind with payments, but rather the opposite, the image of a country in which no-one is left behind.

### Differences for Autonomous Communities

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The Royal Decree Law which sets out the procedure and application schedule for local authorities, is accompanied by another similar one for the autonomous communities in which the main difference is the inclusion of outstanding payment obligations relating to health, education and social services contracts, by virtue of which and on request, an individual or legal entity provides services or goods to third parties.

Autonomous communities can choose whether or not to be included in the mechanism, although Montoro pointed out that on Tuesday the communities had already given their backing to the system at the Fiscal and Financial Policy Council (CPFF) meeting. He also announced that tomorrow the Council of Ministers would be approving a new Royal Decree Law to safeguard the powers of autonomous communities in order to safeguard municipal finances and clarify the administrator's role.

### **Procedure for local authorities**

In order to find out the exact amount of outstanding debts with suppliers, by 15 March all local authorities will have to send, via electronic means, a certified list of all their outstanding invoices from before 1 January 2012 to the Ministry of Finance and Public Administrations. The invoices, which must be for cash payments, due, and required, must fall within the scope of the Public Sector Contracts Act. The list must state the identity of the contractor, the amount, the date the invoice was received and whether or not court proceedings have been initiated by the contractor to collect the payment.

Local authorities will allow contractors to find out if they have been included in the scheme and the amounts that relate to them. If contractors providing the required documentation do not appear on the list, they can ask their town or city council to issue an individual certificate, which the council cannot refuse to issue.

The regulation states that failure on the part of the proper public officials to comply with their obligations to issue certificates and communications will be considered serious misconduct.

### **Adjustment plan**

Once all the information on the total amount of the outstanding invoices is known, the local authority will draw up an adjustment plan which must be approved before 31 March and which must be applied during the

repayment period established for the transaction. It should be sent to the Ministry of Finance and Public Administrations, which will carry out an evaluation within thirty calendar days.

The Adjustment Plan must ensure sufficient income to cover the local authority's current expenditure and to meet credit repayment obligations, including the one being formalised. It must account for the adequate funding of public services provided either through taxes or public prices, and must therefore include sufficient information on the cost of public services and how they are to be funded.

It should also include details of the evolution of income actually obtained by the respective local authority between 2009 and 2011 and a description of and schedule for applying any structural reforms to be implemented and any measures to reduce the administrative burden on citizens and companies that are to be adopted.

The credit agreement will be authorised if the plan receives a favourable assessment from the Ministry of Finance and Public Administrations. If the local authorities do not arrange or are unable to arrange the above mentioned credit transaction, or if they fail to meet their payment obligations, the Ministry of Finance and Public Administrations will make the applicable deductions from any payment orders issued to meet their share of State revenues.

### **Suppliers will begin to receive payments in May**

Suppliers will begin to receive payments from 1 May. Suppliers should present the bonds in which their credit rights are formalised at credit institutions in order to receive the payment of their debts and to transfer the payment rights for said amount to these institutions. This will result in the settlement of the local authority's debt with the contractor, covering the principal, the interest, legal costs and any other incidental costs.