



Council of Ministers

## Approval of funding mechanism for local authorities to pay suppliers

- The amendment to the current legislation to enable State backing in future funding mechanisms for all regional administrations for supplier payments is also before the Spanish Parliament
- Local authority suppliers will start to collect payments for their invoices in May. The age of the invoice and the discount will be taken into account when prioritising payments.

**24 February 2012.** The Council of Ministers has agreed to put before the Cortes Generales - the Spanish Parliament - a draft Organic Law and a Royal Decree to enable the creation of a funding mechanism for local authorities for paying suppliers, and to provide a State guarantee in future funding mechanisms for all public administrations for the same purpose.

The serious situation caused by the current economic crisis, which has resulted in Administrations accumulating a significant backlog of overdue invoices, has been the main reason for the government's approval of these measures.

With the Royal Decree approved today by the Government, a large number of local authority suppliers will be able to present their invoices for payment at financial institutions as soon as possible.

The condition to be met by the supplier in order to have the right to receive payment of their invoice is that the payment should relate to outstanding obligations for works, services or supplies made before 1 January 2012 as well as relating to the types of contracts included within the scope of the Public Sector Contracts Act.

### Procedure

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In order to find out the exact amount of suppliers' outstanding payments, local authorities must send a list of all outstanding payment obligations, by electronic means and signed electronically, to the Ministry of Finance and Public Administrations before 15 March. The list must state the identity of the contractor, the amount, the date the invoice was received and whether or not judicial proceedings have been initiated by the contractor in relation to 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 competent public officials to comply with their obligations to issue certificates and communications will be considered as serious misconduct.

### **Funding mechanism**

The funding mechanism which will be approved in the coming weeks, and which town and city councils will be able to take advantage of, will be effective during 2012. The criteria established for this mechanism to determine payment priority are the discount offered on the principal amount of the outstanding payment obligation or the age of the invoice.

All suppliers or contractors who have the right to payment can voluntarily exercise this right by presenting it at the country's main financial institutions.

Local authorities will be able to fund their payment obligations through a borrowing transaction with an appropriate term to ensure the viability of the transaction.

### **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, who will carry out an evaluation within thirty calendar days.

The aim is simply to guarantee the sustainability of the council's financial situation, in other words, ensuring its public services are properly funded and that it has sufficient income to pay for its current costs and to pay off any debts.