Press release

Senate Local Authorities Commission

Montoro announces that the Government will strengthen the fiscal autonomy of local councils

- In just a few weeks the Government has adopted four measures to provide economic support to local authorities
- The Budgetary Stability Act puts local authorities on an equal footing with the State and the autonomous regions
- The Government is to simplify the local business sector and will implement good governance in local administrations
- The mechanism for paying suppliers will be effective throughout 2012
- The Ministry of Finance will assess local authority adjustment plans within 30 days
- Municipal powers and the Local Financing Act are to be reviewed

29 February 2012. The Ministry of Finance and Public Administrations today stated at the Senate Local Authorities Commission that the Government plans to support local Administration - "the closest administration" - to ensure it is properly funded, through initiatives such as boosting the fiscal autonomy of local councils. Cristóbal Montoro also pointed out that the programme of structural reforms for all Public Administrations that the government plans to implement will help to give local authorities "the status they deserve".

In his speech, Montoro set out the key measures that the government plans to take to support local authorities, and also stated that three important decisions have already been made in less than one month to provide financial support for local administrations: the increase in the municipal property tax (IBI), an advance of 50% of the definitive payment of local authorities' share and an increase in the balance repayment period from 60 to 120 monthly instalments for 2008 and 2009. Montoro emphasised that, in keeping with this Government's aim of reaching a consensus on economic policy, two working groups have been created to resolve potential controversies and that, at all times, "we will listen to the Spanish Federation of Municipalities and Provinces”.

These are measures that "would not serve any purpose” if they did not allow for the payment of suppliers within a short period of time, a process that is now up and running following its approval at the Council of Ministers on 24 February, said the minister, who explained that the mechanism for providing funding to local authorities for these payments would be in place throughout 2012. The aim of this mechanism is to ensure the sustainability of the financial situation of local authorities.

The procedure will begin with the process required to determine the amount to be paid to suppliers, for this local authorities will have to send a certified list of their outstanding payment obligations to the Ministry of Finance and Local Administrations before March 15. These must meet three requirements: they must be due for payment, in cash and payable; they must have been received by the local entity before 1 January 2012; and relate to work, services or supplies covered by the Public Sector Contracts Act.

The certified list must include the identification of the contractor; the principal amount of the debt, along with VAT or IGIC (Canaries General Indirect Tax) where applicable; the date the invoice was received and whether or not judicial proceedings have been initiated by the contractor in relation to the payment prior to 1 January 2012. The suppliers, both contractors and assignees, who have been granted collection rights, will be able to voluntarily contact the principal financial institutions in order to request payment of the debt.

For their part, the local authorities will have to finance the paid payment obligations through a borrowing transaction with a sufficient term to ensure its viability. The financial conditions of this transaction will be set with the agreement of the Delegate Commission of the Government for Economic Affairs. This borrowing transaction may entail transferring the local entity's right to their share in State taxes up to the amount required to pay off their payment obligations. These, the Minister of Finance pointed out, are to a large extent due to the borrowing limit regulation that has been in force for local councils since their last legislature.

Local authorities are also required to draw up an adjustment plan that must be approved by the full Council before 31 March and will be effective throughout the repayment period established for the borrowing transaction. This plan must be sent to the Ministry of Finance and Public Administrations where it will be assessed within 30 days. The borrowing transaction will only be authorised if the adjustment plan receives a favourable assessment.

BUDGETARY STABILITY ACT

Cristóbal Montoro explained to the Local Authorities Commission that the other big measure aimed at furthering the fiscal consolidation of Spanish municipalities is the Organic Law on Budgetary Stability and Financial Sustainability, which the local authorities agreed on at the National Commission of Local Administration on 25 January this year, as the autonomous communities had already done. The Minister of Finance stressed that this law, one of the key features of the government' economic policy based on fiscal consolidation, which incorporates the European governance criteria, should get the greatest possible political consensus.

The three basic objectives of the Act are: to guarantee the budgetary sustainability of all public administrations; to boost confidence in the stability of the Spanish economy; and to reinforce Spain's commitments with the European Union.

Among the project's features, the Minister highlighted the fact that, for the first time, municipal administrations will be participating under the same terms as the regional and national administrations. This equal treatment will of course translate into obligations, the same obligations as those faced by the State and the autonomous communities to achieve a balanced budget or a budget surplus. No administration, however small, will be allowed to incur a structural deficit, except in exceptional situations, such as natural disasters, economic recession or an extraordinary emergency situation.

Public Administration debt, including that of local authorities, regardless of their size, may not exceed the benchmark figure of 60% of GDP established in European regulations, except in exceptional circumstances.

Furthermore, both the State and, from now on, autonomous communities and local councils with more than 50,000 inhabitants, must approve a spending ceiling prior to drawing up their budgets. Cristóbal Montoro explained to the Commission of the Upper Chamber that the spending ceiling is an essential tool for setting budgets. “It is a way of budgeting, subject to the approval of the Spanish Parliament, which we believe is the correct way", stated Montoro.

The expenditure of all these administrations may not exceed the medium term GDP benchmark growth rate, in line with the spending rules established under European regulations.

Furthermore, failure to achieve the stability target by municipalities and provinces, like the rest of the Administrations, will result in the requirement to submit an economic-financial plan that will allow the deviation to be corrected within a period of one year, and which explains both the reasons for the deviation and the specific measures to be implemented to ensure the administration is back within the limits within this period. If this plan is not fulfilled, the municipality or province responsible will have to automatically approve a no-credit agreement, in other words, a spending cut that will guarantee the objectives are met.

The requirement of transparency and fluidity, and the application of responsibilities will entail, in the case of local administrations at all levels, greater contact with the General State Administration, which will take place through the National Council of Local Administration.

E-MAIL
secretaria.prensa@minhap.es

ALCALÁ, 9
28071 - MADRID
TEL: 91 595 80 71/2
FAX: 91 595 84 66

LOCAL POWERS AND FINANCING

Montoro acknowledged that one of the problems in local councils is the assumption of improper powers, which have had a negative impact on their financial position. The Government's aim is to undertake a structural reform of the role of local councils within the System of Autonomous Regions, with one clear objective: “One Administration, one authority". This will be brought about by eliminating unnecessary overlaps, reducing bureaucratic structures and reducing the number of personnel working for the different administrations.

The Minister also announced that the corporate public sector of local Administrations would also be simplified to put an end to "the misnamed public companies, many of which are administrative organisations that avoid public law". The Government will bring transparency and good governance to all Public Administrations.

The Minister of Finance announced the approval of a new Basic Law on Local Governance and Administration, which will define the remit of local authorities more accurately and will also provide them with the most suitable tools for their management, through the implementation of a new local financing model. Local councils will therefore be granted greater fiscal autonomy to provide them with more financing options.

At the same time, and linked with this, the Government will amend the Law Governing Local Tax Offices and the Organic Law on the Financing of Autonomous Communities to prevent duplication and to create clear remits, in order to ensure citizens are provided with quality public services.

Cristóbal Montoro also put forward the plans for the provincial governments, which entail modernising them and reducing their costs and structure, which will require them to be coordinated with their communities.

SMALL BUSINESS ACT

Among the measures that will help to reverse the economic and financial stagnation of SMEs and the self-employed, the Minister of Finance highlighted the future Small Businesses Act, which will include replacing prior authorisations and licences, on the basis of presumed compliance with regulatory requirements, with reinforcement of subsequent control and penalty mechanisms.