



GOBIERNO
DE ESPAÑA

MINISTERIO
DE HACIENDA
Y ADMINISTRACIONES PÚBLICAS



PLAN TO ELIMINATE LATE PAYMENTS IN PUBLIC ADMINISTRATIONS

MARCH 2014



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A COMPREHENSIVE PLAN

The Ministry of Finance and Public **Administrations** launched a set of reforms in 2012-2013 to eliminate late payment (commercial debt arrears) in the public sector, focusing on Autonomous Regions and Local Entities. There are two types of measures:

- **Extraordinary measures:**

- ✓ Supplier payment plan (FFPP) to Autonomous Regions and Local Entities.
- ✓ Regional liquidity fund (FLA) to Autonomous Regions.
- ✓ Extraordinary measures for Local Entities with financial problems.

- **Structural measures:**

- ✓ Law for electronic invoicing and the creation of an invoice accounting register in the public sector.
- ✓ Law to control commercial debt in the public sector.



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OBJECTIVES

Main objective:

- ✓ Eliminating late payment in the public sector **improves the competitiveness** of the Spanish economy as it involves **reducing the financing needs of companies**, facilitating the recovery of the economic activity and **improving confidence** in the overall public sector.

Specific objectives:

- ✓ To finance with conditionality the Autonomous Regions and Local Entities' stock of invoices pending payment.
- ✓ To control expenditure from the date of the invoice.
- ✓ To guarantee compliance with payment deadlines to suppliers.
- ✓ To publish the average period of payment for transparency and monitoring.



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OBJECTIVES

EXTRAORDINARY MEASURES TO FINANCE THE STOCK OF UNPAID INVOICES (1/3)

1. Supplier Payment Plan (FFPP):

- ✓ **10 year- loans** facilitated to the Autonomous Regions and Local Authorities
- ✓ In exchange for compliance with strict fiscal **conditions** (Adjustment Plan).
- ✓ Gradual approach in 3 phases developed since 2012 and the final payment done in February 2014: **41,815 million euro in loans (increased liquidity)**
- ✓ **Cleaning up:** The first phase allowed to pay unregistered invoices with the obligation of recording and registering them. The other phases did not allow for this extraordinary measure.
- ✓ **Payments are directly made to the suppliers**, not to the Regional/Local Administration.



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SUPPLIER PAYMENT PLAN

	Invoices	Suppliers paid	Amount paid
Autonomous Regions	5.919.154	67.129	30.200 M€
Local Entities	2.097.357	123.733	11.600 M€
TOTAL	> 8 million	> 190.800*	> 41.800 M€

* Suppliers paid may not result the sum of those of Autonomous Regions and Local Entities, as one supplier can be both of a Autonomous Region and of a Local Entity.



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OBJECTIVES

EXTRAORDINARY MEASURES TO FINANCE SUPPLIERS (2/3)

2. The Autonomous Liquidity Fund (FLA)

- ✓ Providing liquidity to **9 Autonomous Regions** (voluntary)
- ✓ To finance both the authorized deficit and part of financial debt repayment.
- ✓ **Direct payment of suppliers up to the deficit objective.**
- ✓ Monthly payment
- ✓ The **Adjustment Plan** provides wide information about the Autonomous Community financial situation and measures foreseen and implemented.
- ✓ **2012 up to 16,638.2 million euro**
- ✓ **2013 up to almost 23,000 million euro, and the same foreseen in 2014.**



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OBJECTIVES

EXTRAORDINARY MEASURES TO REGAIN SOLVENCY FOR LOCAL ENTITIES (3/3)

3. Supporting measures for Local Authorities with financial problems (RDL 8/2013)

Local Authorities can benefit from some of the following non-mutually exclusive measures:

- ✓ Refundable advances.
- ✓ Reduction of the withholding in their participation in central gov. taxes.
- ✓ Debt refinancing (necessary legal change of short to long-term).

Strict fiscal conditions are applied: adjustment plan and compliance with **additional measures**: expenditure and revenue side, immediate resizing of the local public sector companies and automatic measures for increased tax revenues, reducing at least 5% of their ordinary expenses, and to transfer any money received into restricted monitored bank accounts.



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LAW FOR ELECTRONIC INVOICING AND INVOICE ACCOUNTING REGISTER FOR THE PUBLIC SECTOR

- Encourages the use of electronic invoicing in the public sector, which will become mandatory as from January 15th 2015.
- To establish the obligatory inclusion of **invoices** issued by suppliers to any Public Administration in an **administrative register**.
- All Administrations will have a main registration point for electronic invoices so that they may be entered by suppliers.
- **From January 2014, all Administrations will have an accounting register** for invoices included in the accounting system and information on the main registration point for electronic invoices.



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LAW TO CONTROL COMMERCIAL DEBT IN THE PUBLIC SECTOR

- Integrates the control of commercial debt as a financial sustainability principle.
- Introduces the concept of Average Payment Period (APP).
- Requires **all Public Administrations** to publish the Average Payment Period.
- Administrations should have a liquidity plan to guarantee compliance with the legal period for payments to suppliers.
- Non-compliance will lead to preventive, corrective and coercive measures. **The final action would be the withholding of resources from the funding system for direct payment to the suppliers.**



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NEW LAW MECHANISM TO AVOID LATE PAYMENTS

If the Average Payment Period (APP) > 30 days (over payment regulations)

The Administration will AUTOMATICALLY include in its Liquidity Plan the amount that it will dedicate monthly to reducing its APP as well as its commitment to adopting quantified measures to reduce expenses /increase revenues in order to reduce its APP.

If its APP > 60 days (over payment regulations) for 2 months:

AUTOMATIC PREVENTIVE MEASURES, which involve sending a warning communication, including the monthly amount that it must geared towards paying its suppliers and the measures for reducing costs/increasing revenues that it must adopt and include in its Liquidity Plan.

If its APP still > 60 days for 2 more months

AUTOMATIC CORRECTIVE MEASURES that will allow it to authorize certain budget changes and long-term debt operations.

The Ministry will adopt automatic corrective measures allowing the withholding of financing system resources in order to pay those suppliers directly

If its APP still > 60 days for 2 more months



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STRATEGY TO ERRADICATE LATE PAYMENT IN PUBLIC ADMINISTRATION

The whole reform package aims to eradicate late payment :

- ✓ **PAST** → The **Supplier Payment Plans** ensured the elimination of the stock of unpaid invoices. Plans already finished.
- ✓ **PRESENT** → Laws already in force (December 2013)
 - ✓ The **Autonomous Liquidity Fund guarantees** financial aid until the Autonomous Regions regain access to financial markets.
 - ✓ The **structural reforms related to electronic invoicing**, accounting register and control of commercial debt will ensure timely payments to public administration suppliers.
- ✓ The liquidity increased with these financing mechanisms have an impact of **400,000 employments maintained or created and a 3% increase in the GDP level in the medium term.**
- ✓ **60% of the suppliers paid under FLA and FFPP belong to health and pharmacy sectors.**