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MINISTERIO
DE HACIENDA
Y ADMINISTRACIONES PÚBLICAS



PAYMENT PERIOD OF COMMERCIAL OPERATIONS WITH AUTONOMOUS COMMUNITIES

SECRETARÍA GENERAL DE COORDINACIÓN AUTONÓMICA Y LOCAL
S.G. ANÁLISIS PRESUPUESTARIO Y ORGANIZACIÓN INSTITUCIONAL DEL SECTOR PÚBLICO
AUTONÓMICO



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SITUATION AT THE BEGINNING OF 2012

On January 1, 2012, the stock of commercial debt with suppliers amounted to **€ 24,835 million** for the 14 Autonomous Communities that had joined the first phase of the Payment Mechanism to Suppliers (2.74% of GDP of these regions). 65% of that stock comprised commercial debt that was related to the health sector.

The **April 2012 legal average payment period** (the first month for which figures are available) was **142 days** for these Communities.

That situation was untenable for many suppliers to the public sector, since payment periods were far off the maximum payment periods established by the EU Directive on Late Payments. This led to the preparation of the **Plan to Eradicate Late Payments of the Public Administrations**.



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PLAN TO ERADICATE LATE PAYMENTS IN THE
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Interim Measures

Extraordinary Payment Mechanism to Suppliers:

- First phase (June 2012): € 17,704.68 million
- Second phase (August 2013): € 938.50 million
- Third phase. Tranche I (November 2013): € 3,605.89 million
- Third phase. Tranche II (February 2014): € 7,970.09 million

Liquidity Fund to Autonomous Communities (FLA) & Financial Facility Fund (FF)

- FLA 2012: € 6,297.42 million
- FLA 2013: € 7,250.70 million
- FLA 2014: € 12,081.66 million
- FLA & FF 2015: € 16,545.05 million (pending: € 162 million in February 2016)

TOTAL PAYMENTS TO SUPPLIERS AND THIRD PARTIES: €72,393.98 MILLION



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Application of Measures under the Organic Law for Budgetary Stability and Financial Sustainability (LOEPSF) - I

- Update of **cash-flow plans** starting from the first publication of the Average Payment Period (APP) of the Autonomous Communities in November 2015 with September 2015 data and submission of **measures and the APP scenario** according to article 11 of Order 2015/2012.
- **Communications of alert** under **article 18.4 LOEPSF** to the Autonomous Communities of Aragón, Extremadura, and Comunidad Valenciana.
- The Autonomous Communities of Aragón and Extremadura continue to have an APP higher than the 60-day threshold. As a result, a Communication requiring the application of measures under **article 20.5 LOEPSF** is sent to them in September 2015.



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Application of Measures under the Organic Law for Budgetary Stability and Financial Sustainability (LOEPSF) - II

- Based on the latest figures published in November on **Aragón and Extremadura**, it has become possible to initiate the procedure to withhold resources from the financing system to the Autonomous Communities (pending on the assessment of the effect that the extraordinary regularization of payments of December may have had on the December and January APPs).
- Currently **Illes Balears, Cataluña, Región de Murcia y C. Valenciana** meet the criteria leading to the application of corrective measures, pending on the assessment of the effect that the extraordinary December payments may have had on the APP.



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APP METHODOLOGY RD 635/2014

Calculation Methodology of the Average Payment Period

Royal Decree 635/2014, developing Organic Law 9/2013

- Establishes the withholding procedure of system resources applicable when APP thresholds are exceeded.
- Defines the **APP calculation methodology of each entity** as the weighted average of:
 - ROP: Ratio of operations paid during the month (payment term starting once the legal conformity period for the invoice ends)
 - ROPP: Ratio of pending operations (period of time elapsed since the legal conformity period for the invoice ends)

$$APP = \frac{(ROP \times \text{Payments made}) + (ROPP \times \text{Invoices pending})}{\text{Payments made} + \text{Invoices pending}}$$

- Defines the **APP calculation methodology of an Administration (SEC)** as the weighted average of their APPs according to the operations amounts of each entity.



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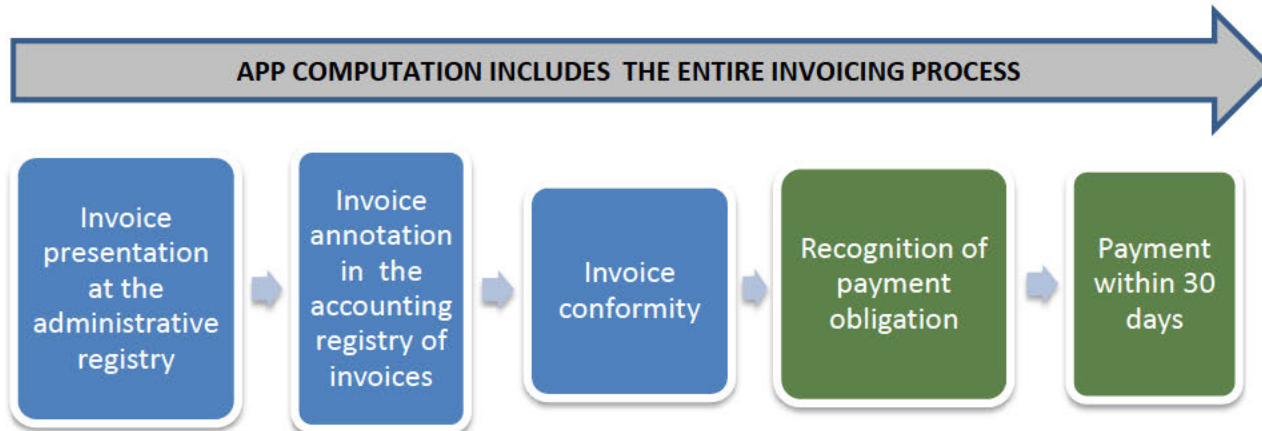
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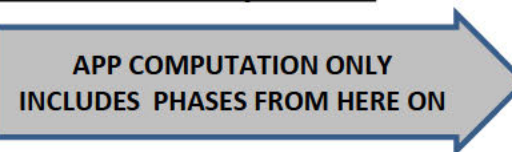
APP METHODOLOGY RD 635/2014

Calculation Methodology of the Average Payment Period

Economic criterion (according to RD 635/2014): FIFO



Legal payment period criterion (according to Law 3/2004): LIFO





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APP METHODOLOGY RD 635/2014

Calculation Methodology of the Average Payment Period

- Advantages of this methodology
 - It establishes a **common and homogeneous** calculation system for the public administrations that computes APP values **automatically** and whose reduction necessarily implies **an improvement of the financial conditions** of companies.
 - Besides the payment period of operations, it does also take into account the time elapsed since invoicing of **pending operations** took place (it prevents strategic or undesired behavior aimed at reducing APP).
 - The computation of the payment period starts **when a supplier presents** an invoice. This makes APP an automatic application and management indicator.
 - Public Administrations **take more effective action**, since the improvement of the conformity period for invoices leads to a better APP (all phases from invoice presentation to invoice payment are considered by the methodology)
- Disadvantages (currently not relevant):
 - It can only consider invoices related to invoicing periods starting after 2013.



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INFORMATION SOURCES AVAILABLE

From the Autonomous Communities:

- **Official data** on APP calculated according to the methodology set by Royal Decree 635/2014 and obtained from the accounting-information systems, with a 100% operations coverage.

From external sources (I):

- **FENIN and Farmaindustria:** DSO. This is a financial indicator that differs enormously from the concepts of legal-payment period or effective time elapsed since invoicing, since it does only takes into account the amount of pending payments and purchase volume.
- **PMcM:** Financial indicator that takes into account the end-period amount of pending payments to suppliers and purchase volume



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INFORMATION SOURCES AVAILABLE

From external sources (II):

- **ATA:** it does apply a concept that computes the payment period starting from the day when the invoice is emitted , does not take into account the legally established conformity period (a kind of information that was not available to suppliers until the accounting registry was created), and is based on survey-drawn data.
- **Spanish Central Bank:** information on commercial credits to Autonomous Communities since 1994 / convergence with data from the Ministry of Finance and Public Administrations from 2015 on.

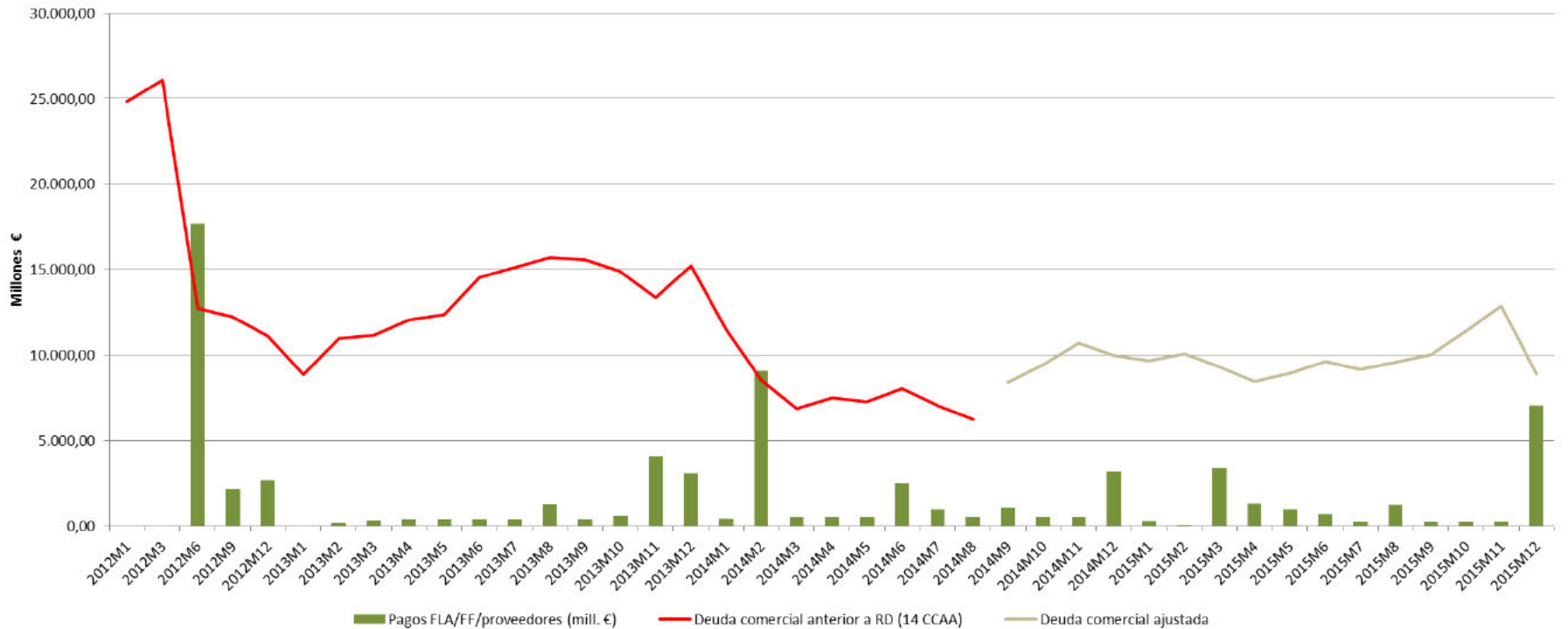


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PAYMENT PERIOD OF COMMERCIAL OPERATIONS WITH AUTONOMOUS COMMUNITIES

OBSERVED EVOLUTION OF COMMERCIAL DEBT



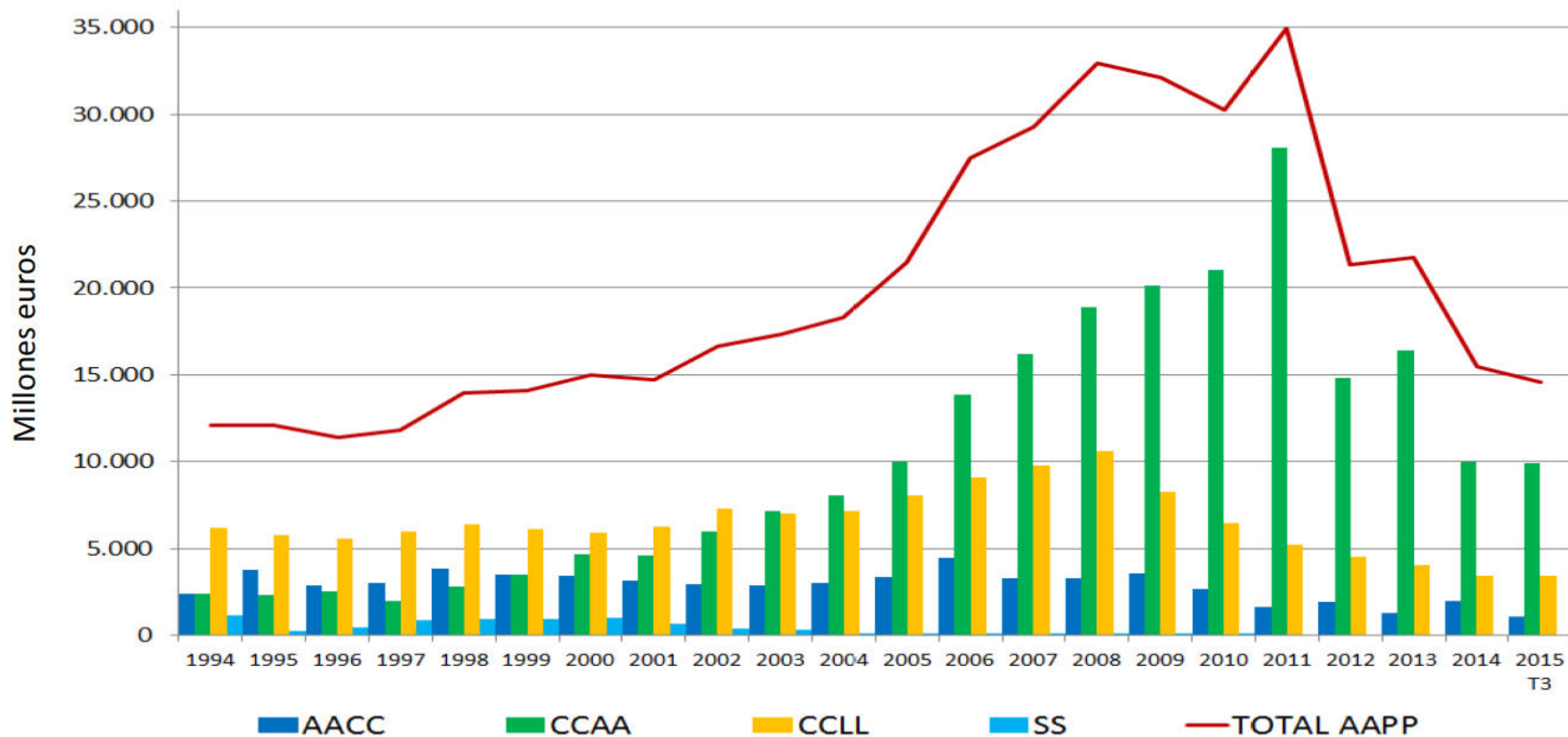


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OBSERVED EVOLUTION OF COMMERCIAL DEBT (SPANISH CENTRAL BANK / 2005-2015)



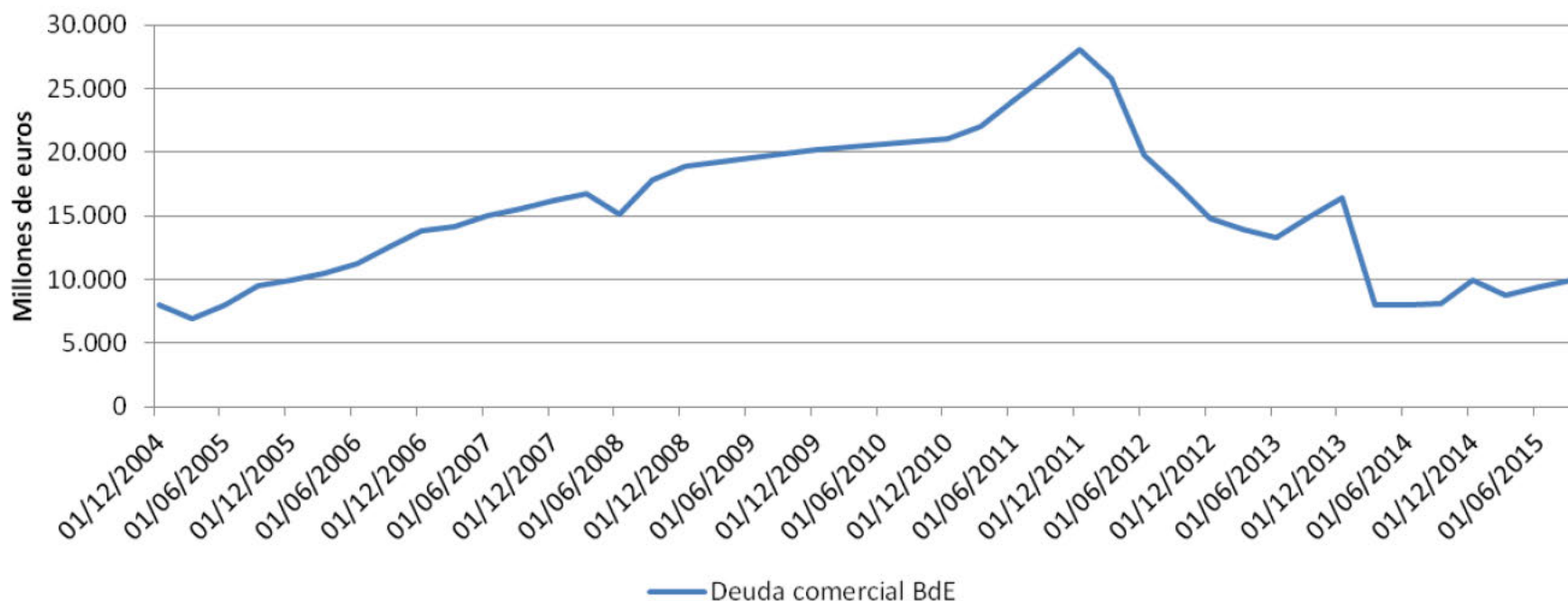


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OBSERVED EVOLUTION OF COMMERCIAL DEBT OF THE AUTONOMOUS COMMUNITIES (SPANISH CENTRAL BANK / 2005-2015)





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PAYMENT PERIOD OF COMMERCIAL OPERATIONS WITH AUTONOMOUS COMMUNITIES EVOLUTION IN 2012 -2015

Commercial debt:

- According to current estimates available, the value of the commercial-debt stock for the end of fiscal year 2015 was 70% lower in homogeneous terms compared to the stock value at the beginning of 2012.
- The estimated value of the commercial-debt stock for the end of fiscal year 2015 were close to the minimum value recorded in the historical series computed by the Ministry of Finance and Public Administrations and reached 2015 levels according to data provided by the Spanish Central Bank.
- In addition, payments to suppliers made by the Financing Fund to the Autonomous Communities for fiscal year 2015 will take place in January and February. These payments amount to approximately €1,200 million, about 15% of the commercial-debt stock value estimated for the end of fiscal year 2015

Average Payment Period (APP)

- APP has followed a **decreasing trend** on average during the observed period.
- The **pending-payments operations ratio** was about 37 days at the end of 2015, the **minimum value of its historical series**. This figure is close to the maximum payment period established by the applicable legislation on late payments.



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Favorable elements in 2016 pointing to a convergence to legal payment periods (I):

- A **more favorable starting point** at the end of fiscal year 2015, with important payments made by the financing mechanisms in January and February 2016 compared to 2015.
- An **important improvement of financing** to the Autonomous Communities in 2016 that will make additional €7,455 million available with respect to fiscal year 2015 .
- Of that amount, **€ 5,135 million** correspond to the **settlement forecast of the financing system** to the Autonomous Communities from which advance payments have been made to the regions at the beginning of 2016 in order to deseasonalize peak cash flows.



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Favorable elements in 2016 pointing to a convergence to legal payment periods (II):

- 2016 is the first fiscal year that has started with all deviations of fiscal years prior to «n-2» having been financed already. This will allow to follow a **speedier financing calendar** of possible deviations from 2015 deficit objectives.
- 2016 is the first fiscal year in which important coercive measures consisting in **withholding resources from the financing system** to the Autonomous Communities in order to make direct payments to suppliers.
- All Autonomous Communities (except Galicia and Canarias) will have to join the Liquidity Fund to Autonomous Communities and will therefore be subjected to a **reinforced control** exercised by the Ministry of Finance and Public Administrations