

‘Practical experiences in auditing local government in EURORAI member countries (types of audit, findings, reports and measures taken)’

‘Deficit and indebtedness of local authorities’ with particular reference to local authorities in Galicia

Lecture:

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SUMMARY

- 1.** Municipality as geographical demarcation of the State, in Spain.
- 2.** Number of municipalities in Spain and their population: per Autonomous Community.- With particular reference to Galicia.
- 3.** Chart of municipal powers.
- 4.** General ideas on budgets. Main budgetary proportions of municipalities in Galicia.
- 5.** Deficit and indebtedness.
- 6.** Criteria for auditing public debt.

Municipality as geographical demarcation in Spain

According to the Spanish Constitution ‘the State is organized territorially into municipalities, provinces and Autonomous Communities that may be constituted’ (art. 137.1).

Thus, and in view of this constitutional provision and its equivalent provisions of ordinary legislation in Spain, Public Administration is set up in the following **levels**:

- **State** administration,
- Administration of **Autonomous Communities**, and
- **Local government** administration, within which are included **municipalities** and **provinces**.

Legal concept of MUNICIPALITY and PROVINCE

According to the basic legislation in force for the regulation of local authorities:

MUNICIPALITY is the ‘basic entity of the territorial organization of the State and an immediate channel for civil participation in public affairs, which institutionalizes and manages with autonomy the relevant local authority’s own interest’[1].

PROVINCE, determined by the grouping of municipalities[2], also has autonomy to manage the relevant interests, and has as its own and specific purposes to guarantee the principles of intermunicipal solidarity and balance within the framework of economic and social policy[3].

[1] See Article. 1 of Act 7/1985, of 2 April, Local Government Regulatory Law (Official State Bulletin Nr. 80, of 3rd April, and subsequent amendments).

[2] See. Art. 141 Spanish Constitution.

[3] See Art. 31.2 of 7/1985 Act, cit.

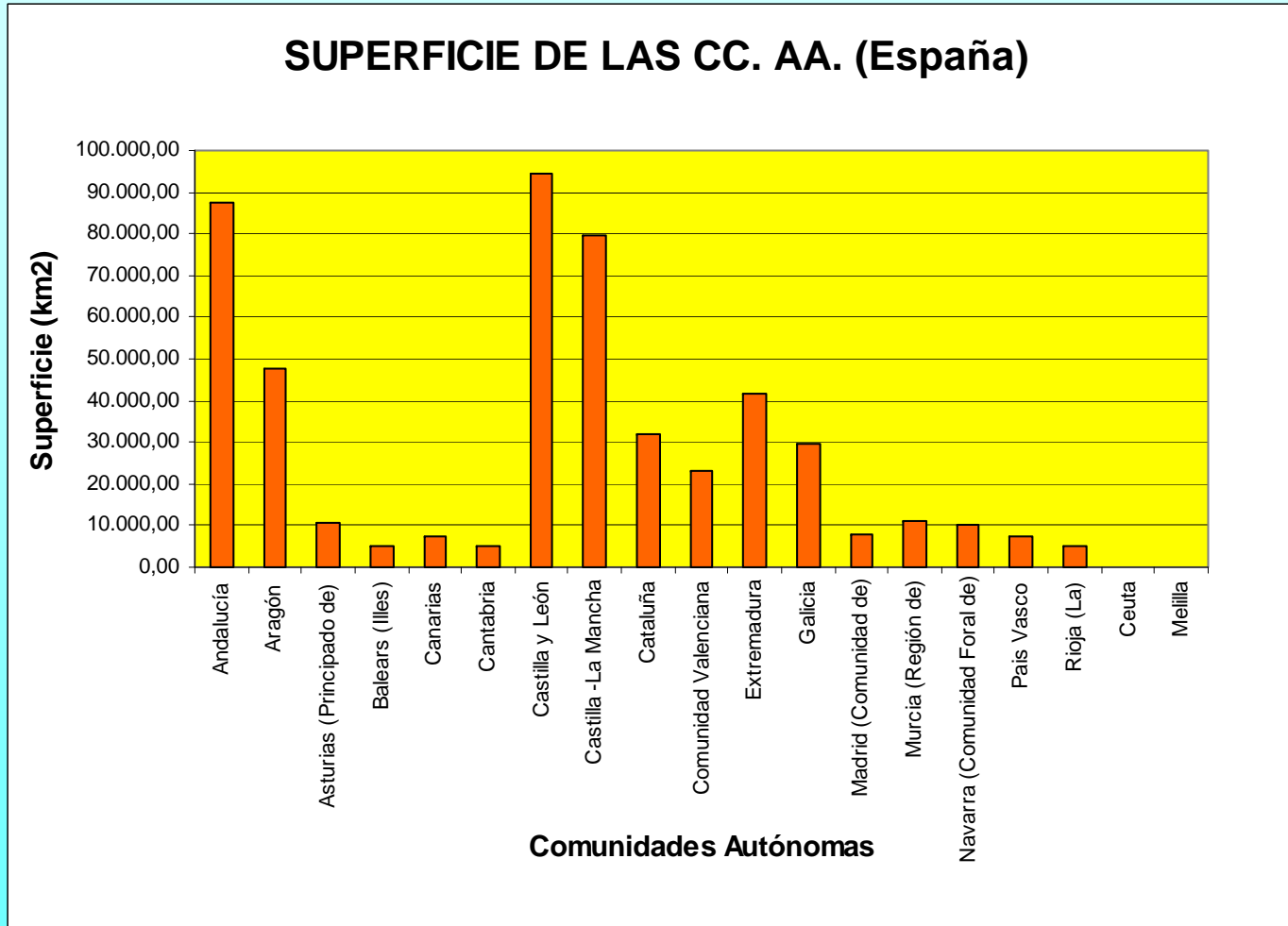
Basic elements which make up MUNICIPALITIES:

We will refer almost exclusively to municipalities.

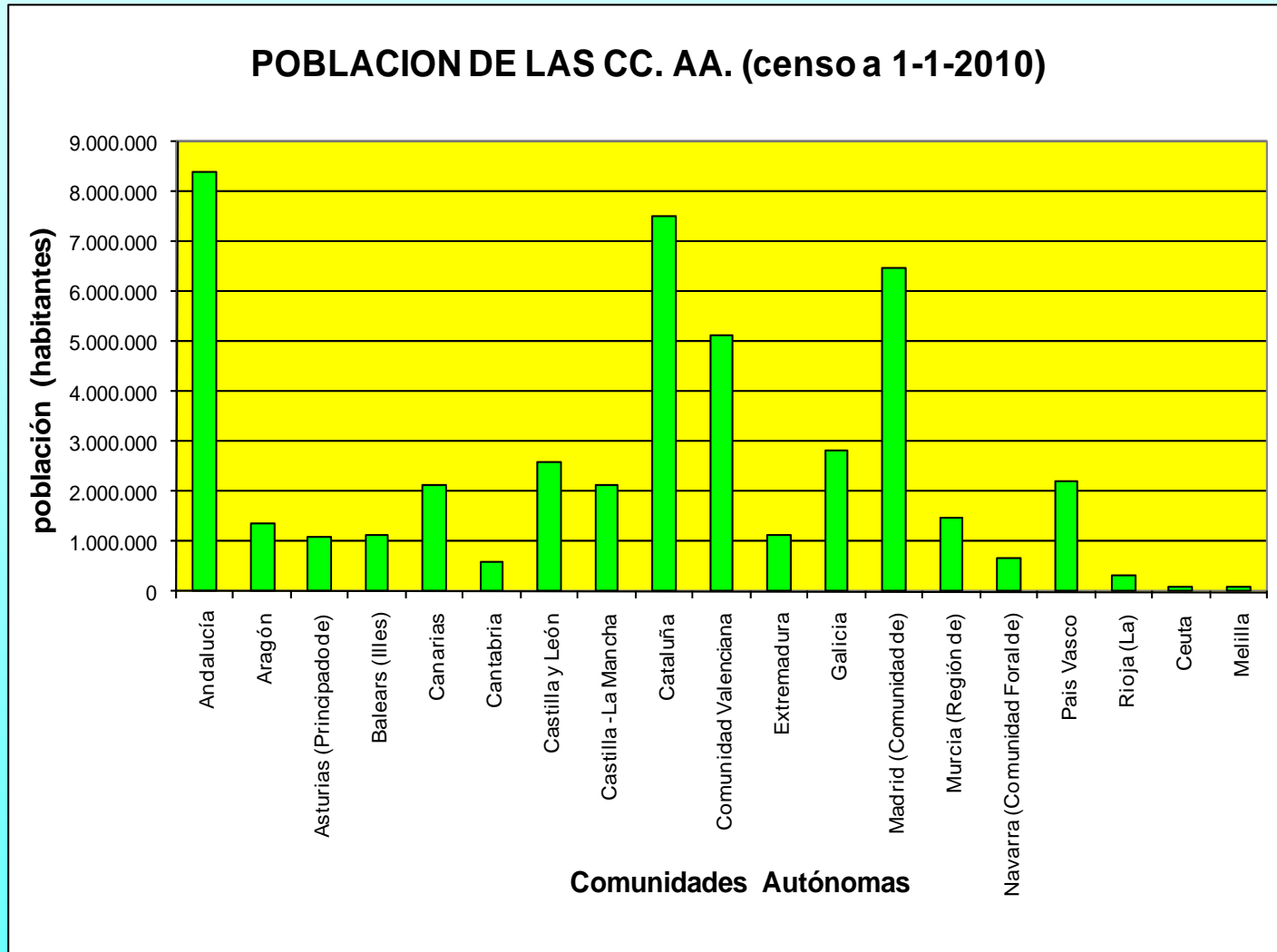
Their basic elements are:

- Territory,
- Population, and
- Organization

TERRITORY

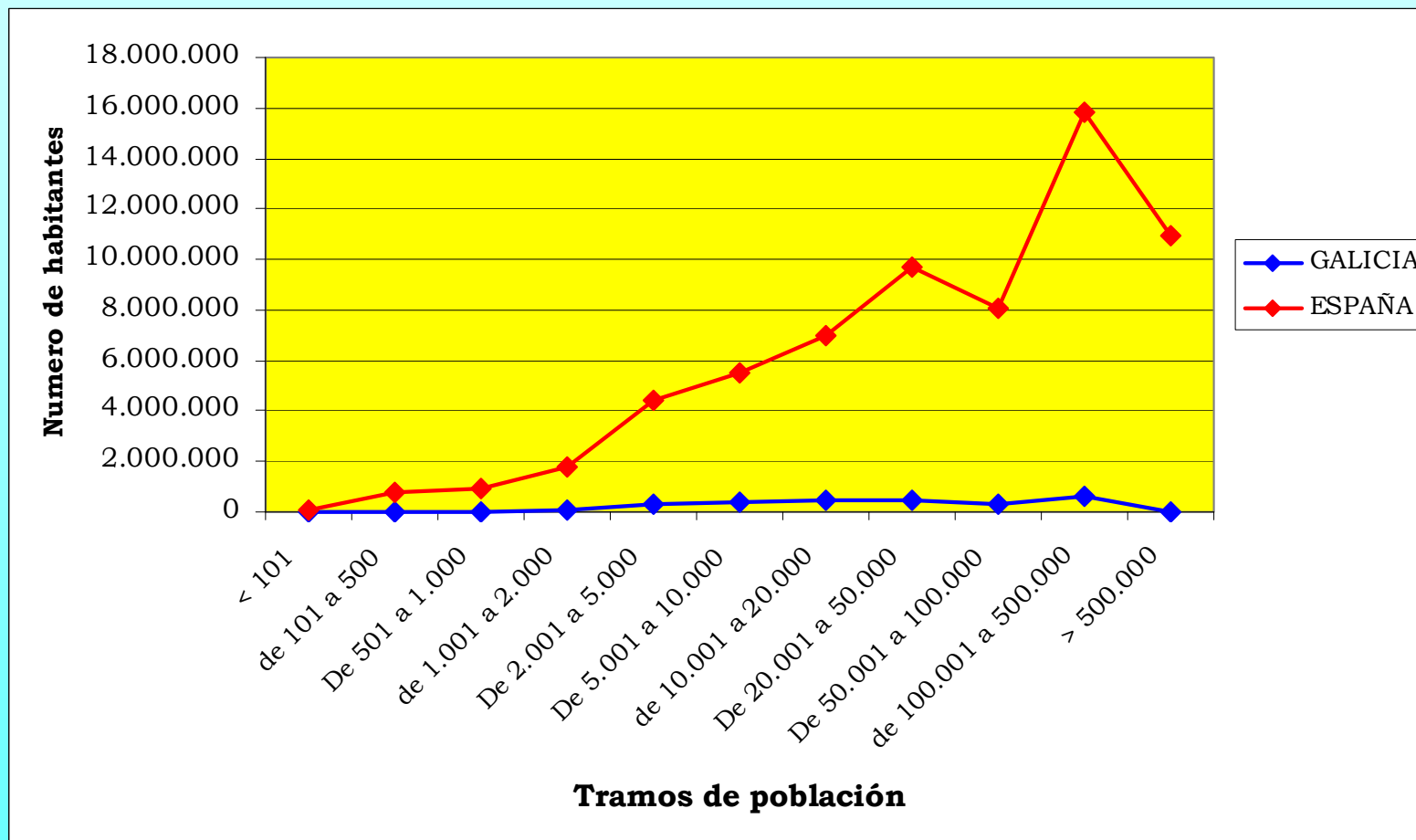


POPULATION



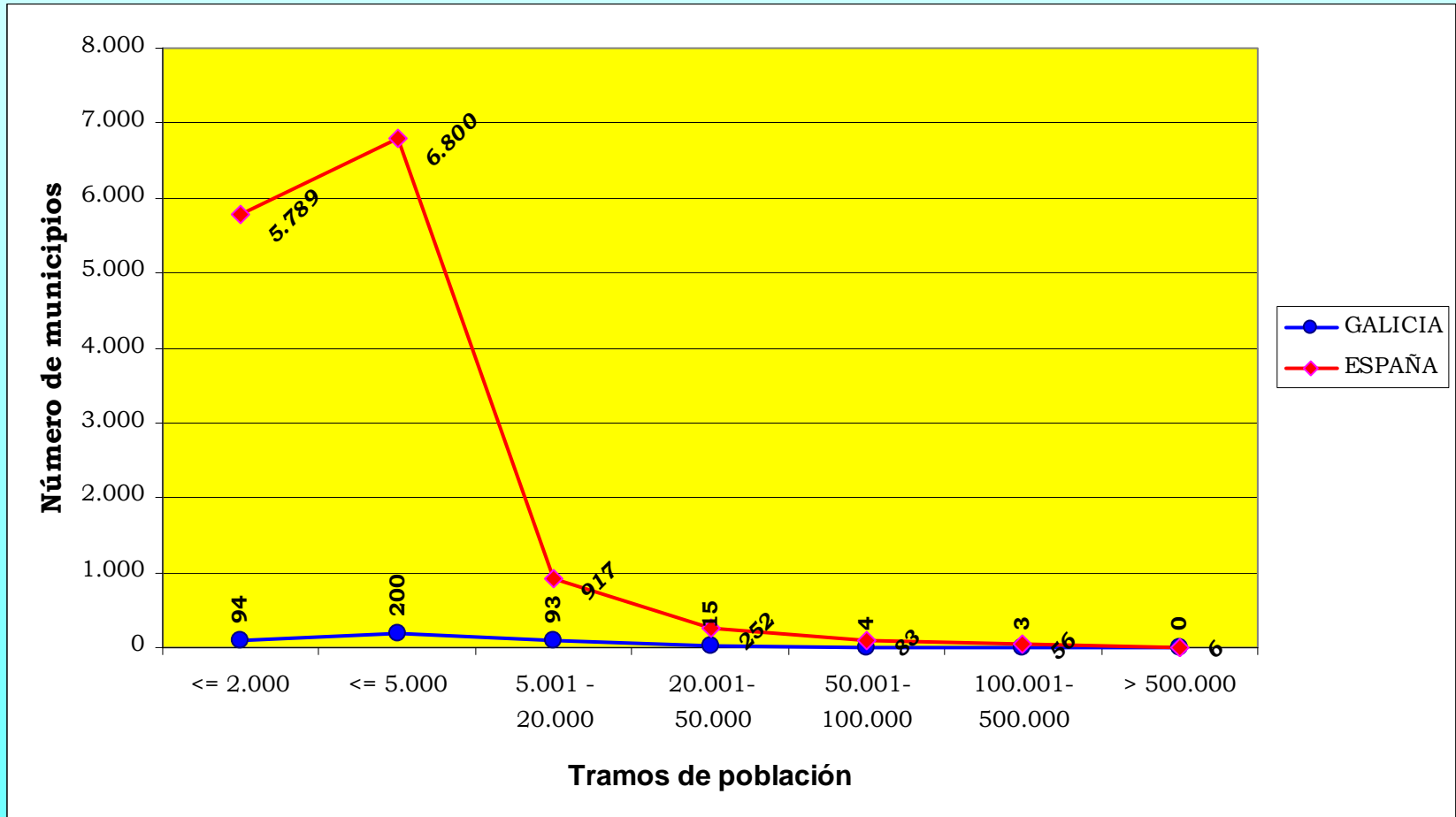


Number of inhabitants according to population brackets of municipalities

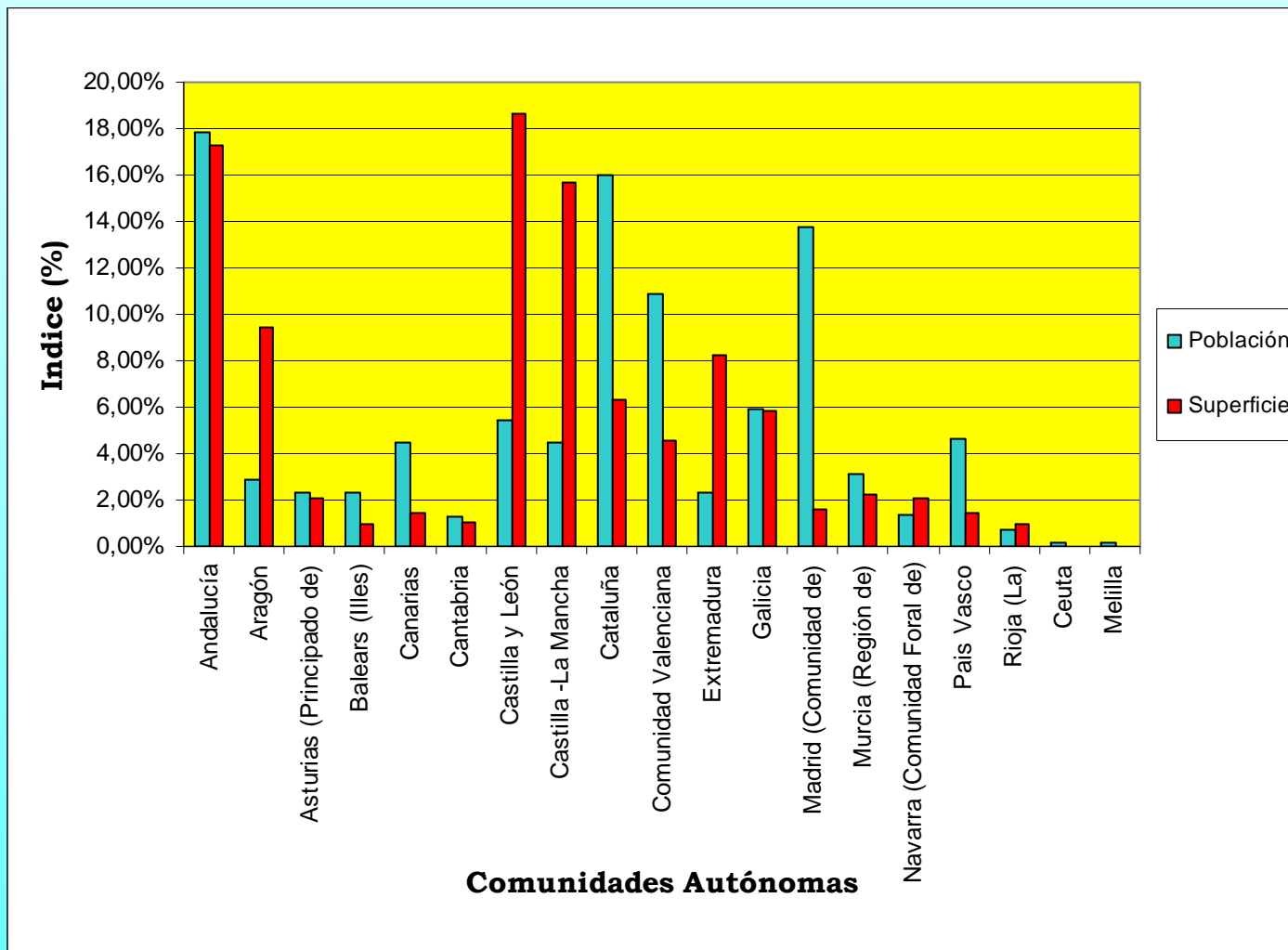




Number of municipalities according to population brackets



Relative position of Autonomous Communities according to population and territory





SERVICES OF MUNICIPAL COMPETENCE

SERVICIOS MUNICIPALES DE PRESTACIÓN OBLIGATORIA	MUNICIPIOS SEGÚN POBLACIÓN			
1) Alumbrado público 2) Cementerio 3) Recogida de residuos 4) Limpieza viaria 5) Abastecimiento a domicilio de agua potable 6) Alcantarillado 7) Acceso a los núcleos de población 8) Pavimentación de las vías publicas 9) Control de alimentos y bebidas	TODOS LOS MUNICIPIOS	MUNICIPIOS CON POBLACIÓN SUPERIOR A 5.000 HABITANTES > 5.000	MUNICIPIOS CON POBLACIÓN SUPERIOR A 20.000 HABITANTES >20.000	MUNICIPIOS CON POBLACIÓN SUPERIOR A 50.000 HABITANTES >50.000
10) Parque público 11) Biblioteca pública 12) mercado, 13) tratamiento de residuos				
14) Protección civil, 15) Prestación de servicios sociales, 16) prevención y extinción de incendios, 17) instalaciones deportivas de uso público				
18) Transporte colectivo urbano de viajeros, 19) Protección del medio ambiente				

FINANCING OF LOCAL AUTHORITIES

Resources of private law

Returns or products of any kind, stemming from their heritage, as well as the acquisition by way of inheritance, legacy or donation.

Resources of public law

- a) Own taxation: fees, special contributions, taxes and surcharges imposed on Autonomous Communities' taxes and other entities;
- b) Participation of the local authorities in the State and Autonomous Communities' taxes;
- c) Subsidies;
- d) Public tariffs;
- e) Results arising from credit operations;
- f) Fines and penalties;
- g) Other benefits of public law

OWN TAXATION

- A) **FEES**: taxes whose chargeable event consists in a private or specific use of local public property, as well as the provision of public services or the conduct of administrative activities at local level which refer to, affect or benefit taxpayers in particular.
- B) **SPECIAL CONTRIBUTIONS**: taxes whose chargeable event is to obtain by the taxpayer a benefit or an increase of the value of his properties as a result of the carrying out of public works or the setting-up or increase of local public services by the respective entities.
- C) **TAXES**: taxes required without any compensation and whose chargeable event is any business, acts, or facts which show the economic capacity circumstances of the taxpayer.

LOCAL TAXATION

MANDATORY:

- **Property** Tax,
- **Business** Tax,
- Tax **on Motor Vehicles**.

OPTIONAL:

- Tax on **Buildings, Equipment and Works**, and
- Tax on **the Increase in Value of Urban Land**.



PARTICIPATION IN STATE TAXES

The participation is based on two systems or procedures:

1) **Transfer of tax collection**, applying a ratio on its yield:

- 1.6785% of the liquid payable Personal Income Tax;
- 1.7897% of the liquid collection of Value Added Tax attributable to each municipality;
- 2.0454% of the liquid collection attributable to each municipality by special taxes on beer, wine and fermented drinks, taxes on intermediate products, taxes on alcohol and other drinks, taxes on mineral oils and tobacco products.

2) **General revenue sharing system**, by means of applying a rate of evolution to the initial participation estimated for a base year.

SUBSIDIES

Concept:

- Any shift of assets,
- whose aim is a monetary delivery or a delivery in kind,
- among the different public administration agents, and from these to other public or private bodies, and to individuals
- without any direct payment by the beneficiaries
- for a specific purpose, activity, or project,
- with an obligation on the part of the recipient to fulfil the obligations or requirements which may have been established or, if this is not the case, to refund the relevant amount.

Characteristic of the transfer: the ALLOCATION TO THE ACTIVITY, PROJECT OR SPECIFIC PURPOSE

Through the transfer are financed NON selected activities or transactions.

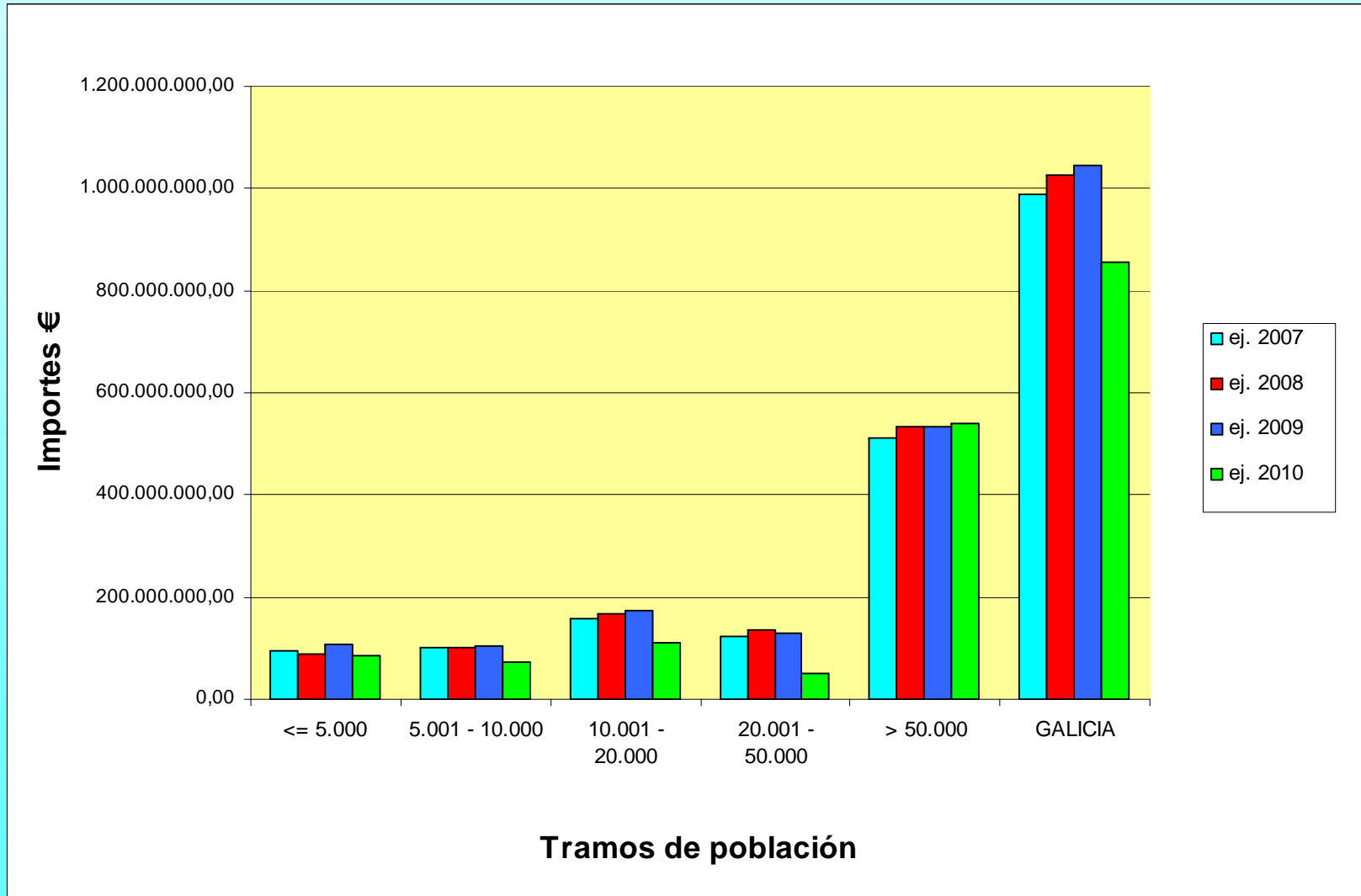
REVENUE TYPES AND ECONOMIC CLASSIFICATION OF BUDGET

Revenue type	Chapter of the statement of revenue
Own direct taxes	Chapter 1 (direct taxes)
Own indirect taxes	Chapter 2 (indirect taxes)
Fees, special contributions	Chapter 3 (fees, public tariffs and other revenue)
Participation in state revenues and revenues of the Autonomous Communities	Chapter 4 (current transfers)
Subsidies	Chapter 7 (capital transfers)
Debt transactions	Chapter 9 (financial liabilities)

OWN REVENUE

Municipalities of Galicia by population

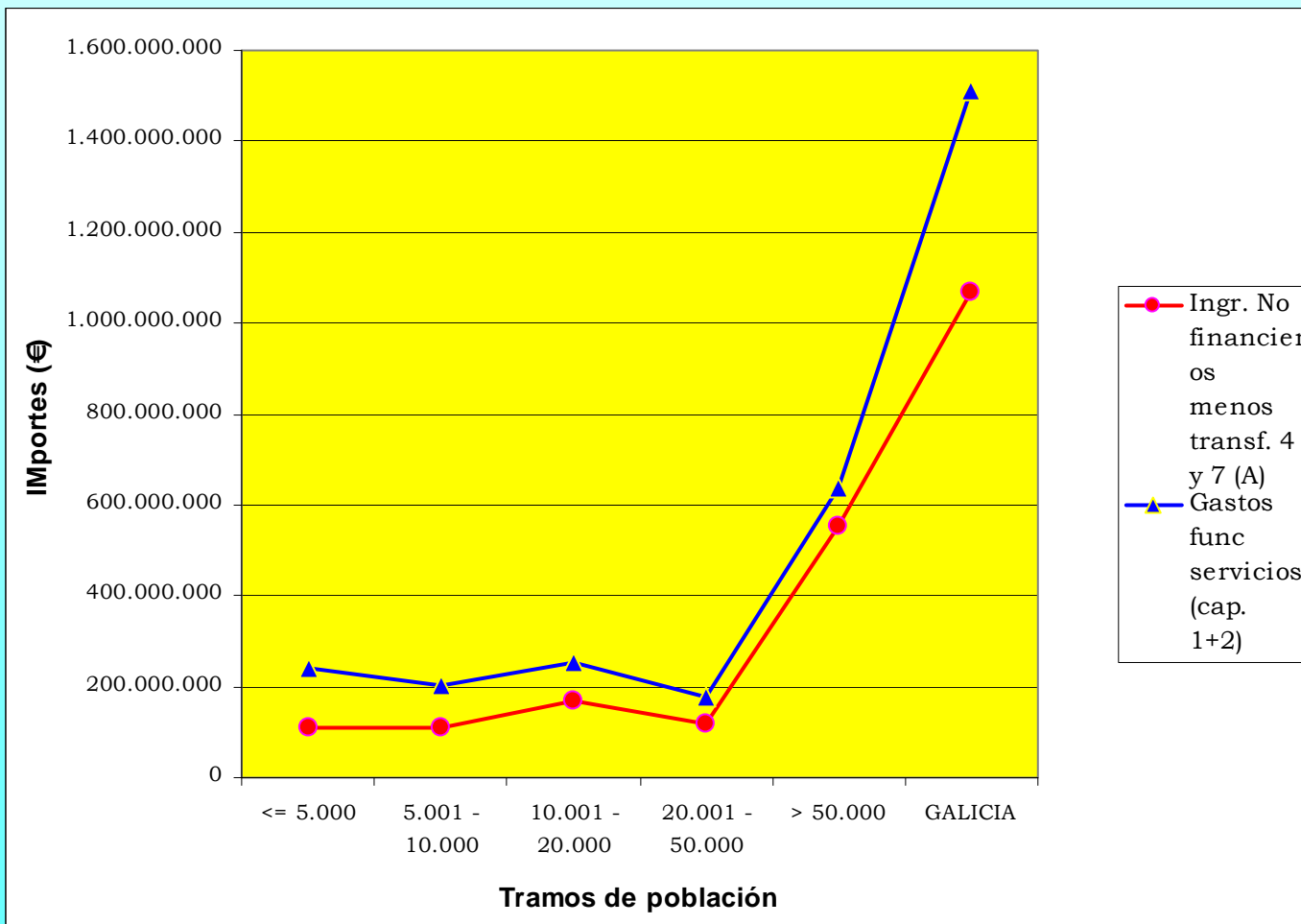
Ej. 2007-08-09-10





COVERAGE OF OPERATING COSTS OF SERVICES

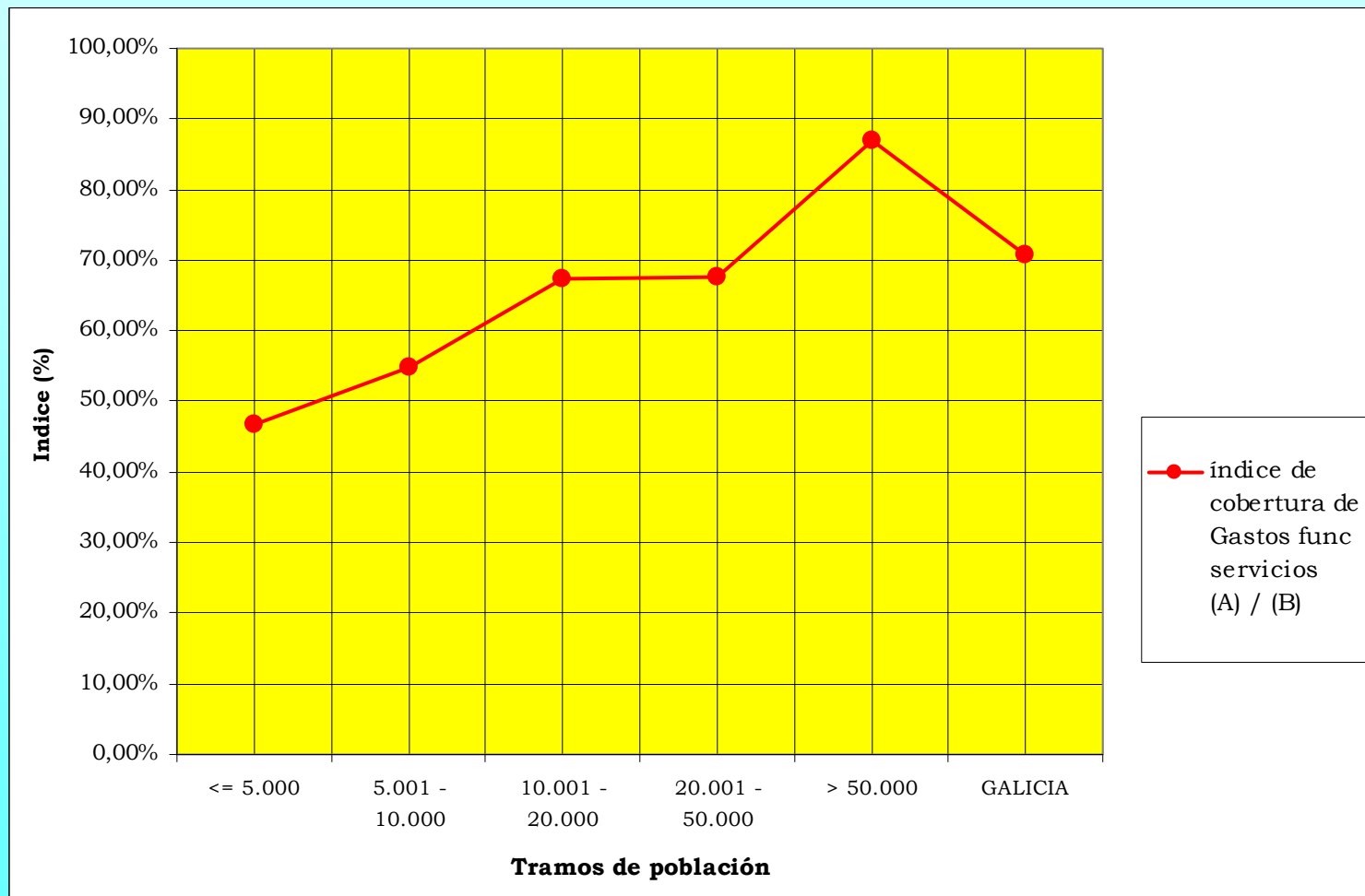
Revenue from own taxes and operating costs of services (1)





COVERAGE OF OPERATING COSTS OF SERVICES

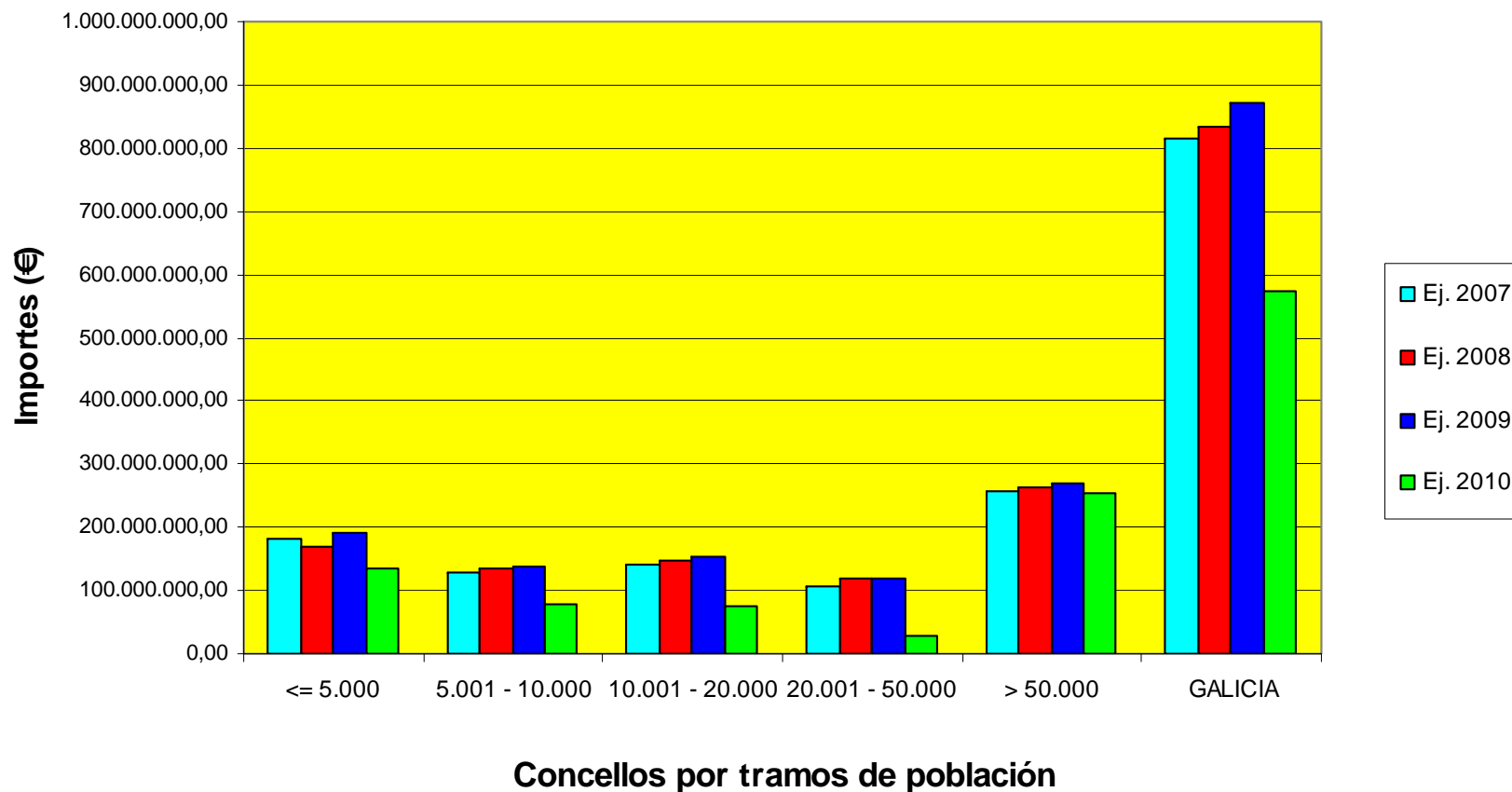
Revenue from own taxes and operating costs of services (2)





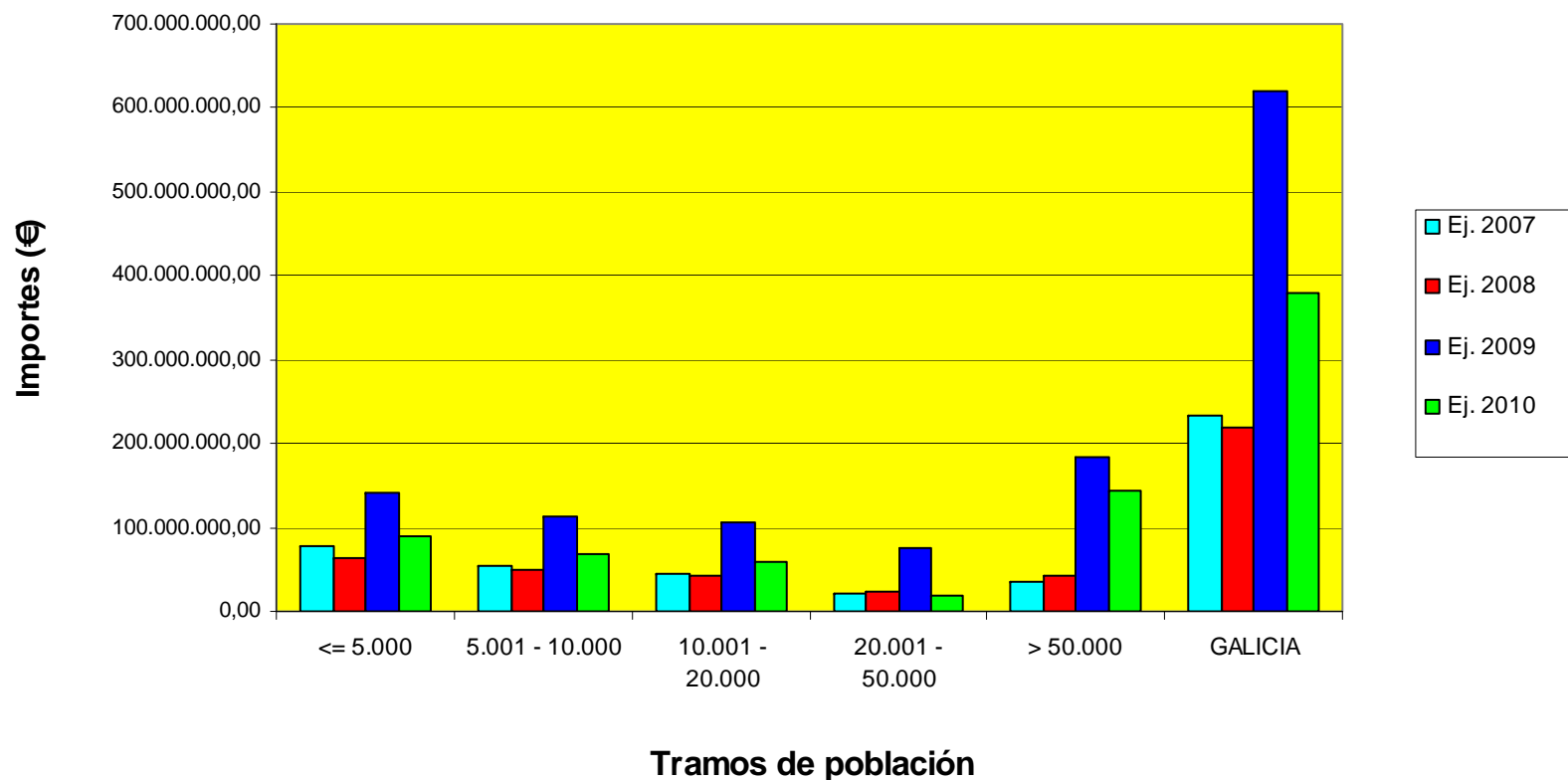
TRANSFERENCIAS CORRIENTES, (PIE) ej. 2007-08-09-10

(Cap. 4) Concellos de Galicia por tramos de población





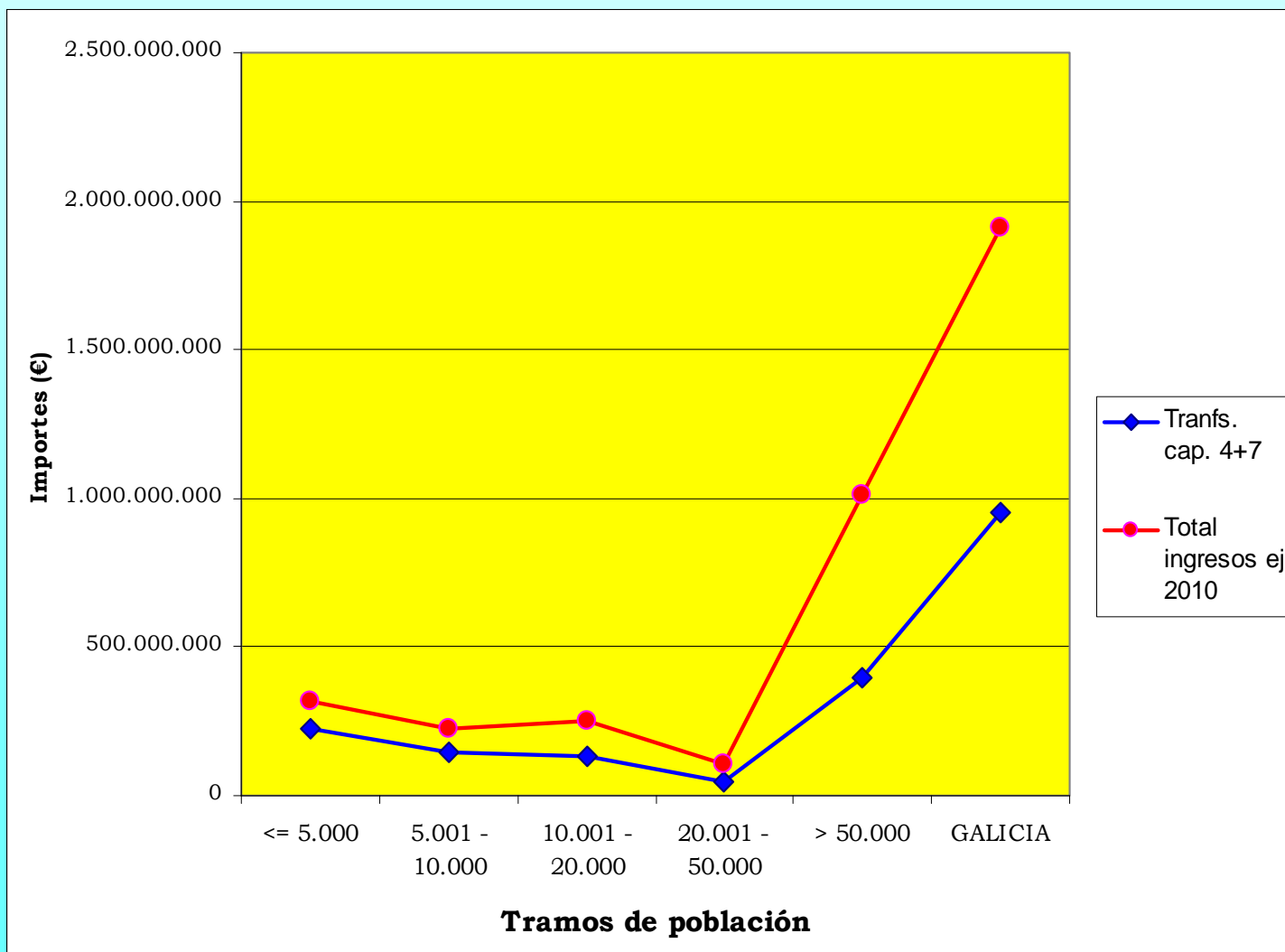
TRANSFERENCIAS DE CAPITAL Ej. 2007-08-09-10 (Cap 7) Concellos de Galicia por tramos de población





FINANCIAL DEPENDENCE (1)

Total transfers and revenues





FINANCIAL DEPENDENCE (2)

Total transfers and revenues



PARTICULAR REFERENCE TO CREDIT TRANSACTIONS

Aim of credit transactions:	<ul style="list-style-type: none">a) Investment financing,b) Total or partial substitution of pre-existing transactions.
Ways to provide credit:	<ul style="list-style-type: none">a) Public debt issuance,b) Contracting loans and credits,c) Any other form of public or private borrowing,d) Total or partial conversion of pre-existing transactions.

REQUIREMENTS TO IMPLEMENT CREDIT TRANSACTIONS (1)

<u>Procedure</u>	<u>Content or type of transaction</u>	<u>Requirements</u>
Previous report by the internal control body	Analysis of the capacity to tackle borrowing operations over time	
Agreement of the president of the authority to enter into a transaction	Long term transactions	Cumulative amount, within each financial year, not exceeding 10% of regular resources
	Short term transactions	Cumulative amount of short term outstanding transactions not exceeding 15% of current resources used in the former financial year

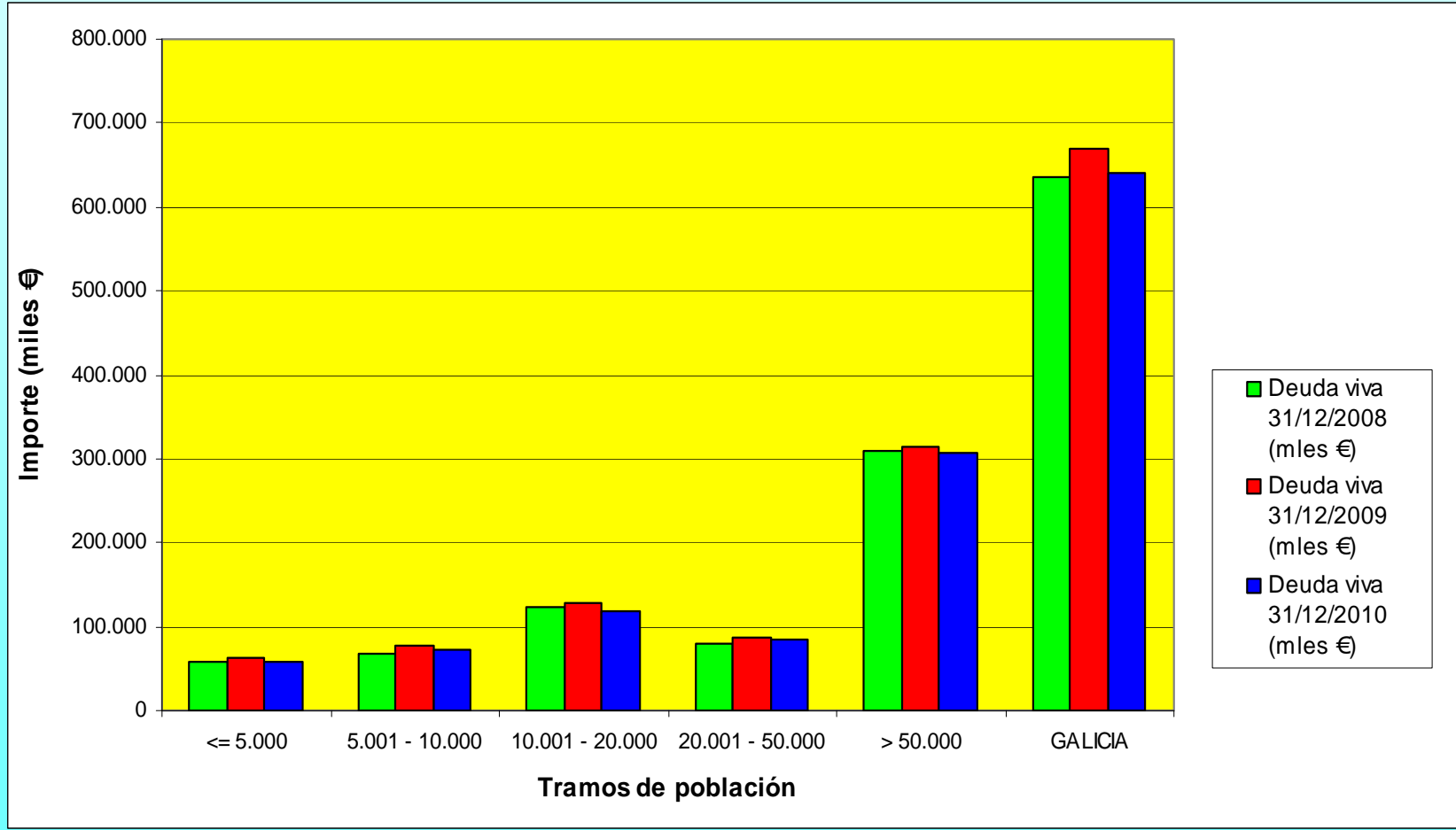
REQUIREMENTS TO IMPLEMENT CREDIT TRANSACTIONS (2)



<u>Procedure</u>	<u>Content or type of transaction</u>	<u>Requirement</u>
Agreement of the board of the authority	Long term transactions	When the limits set forth above are exceeded
	Short term transactions	When the limits set forth above are exceeded

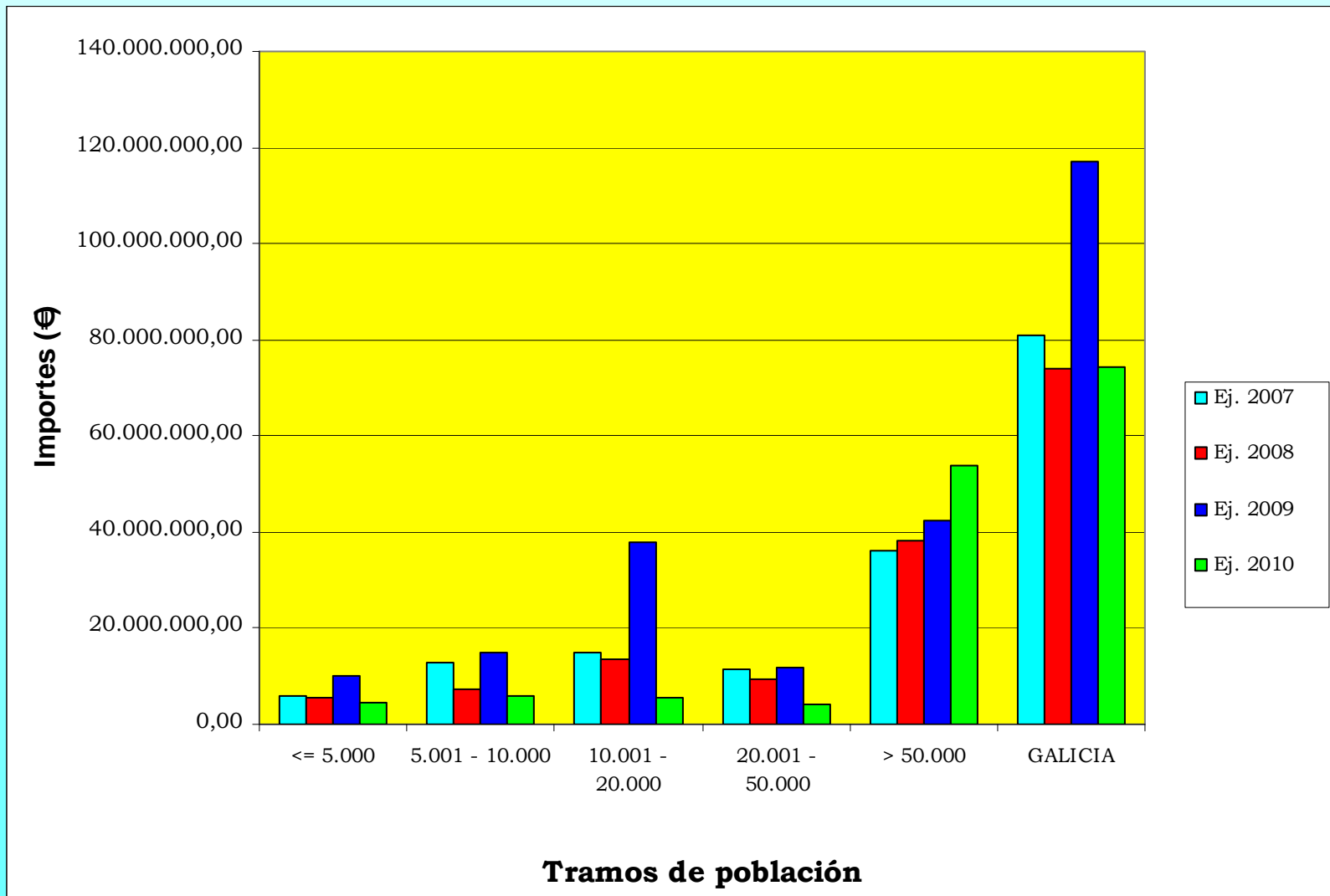


INDEBTEDNESS (2008-09-10)





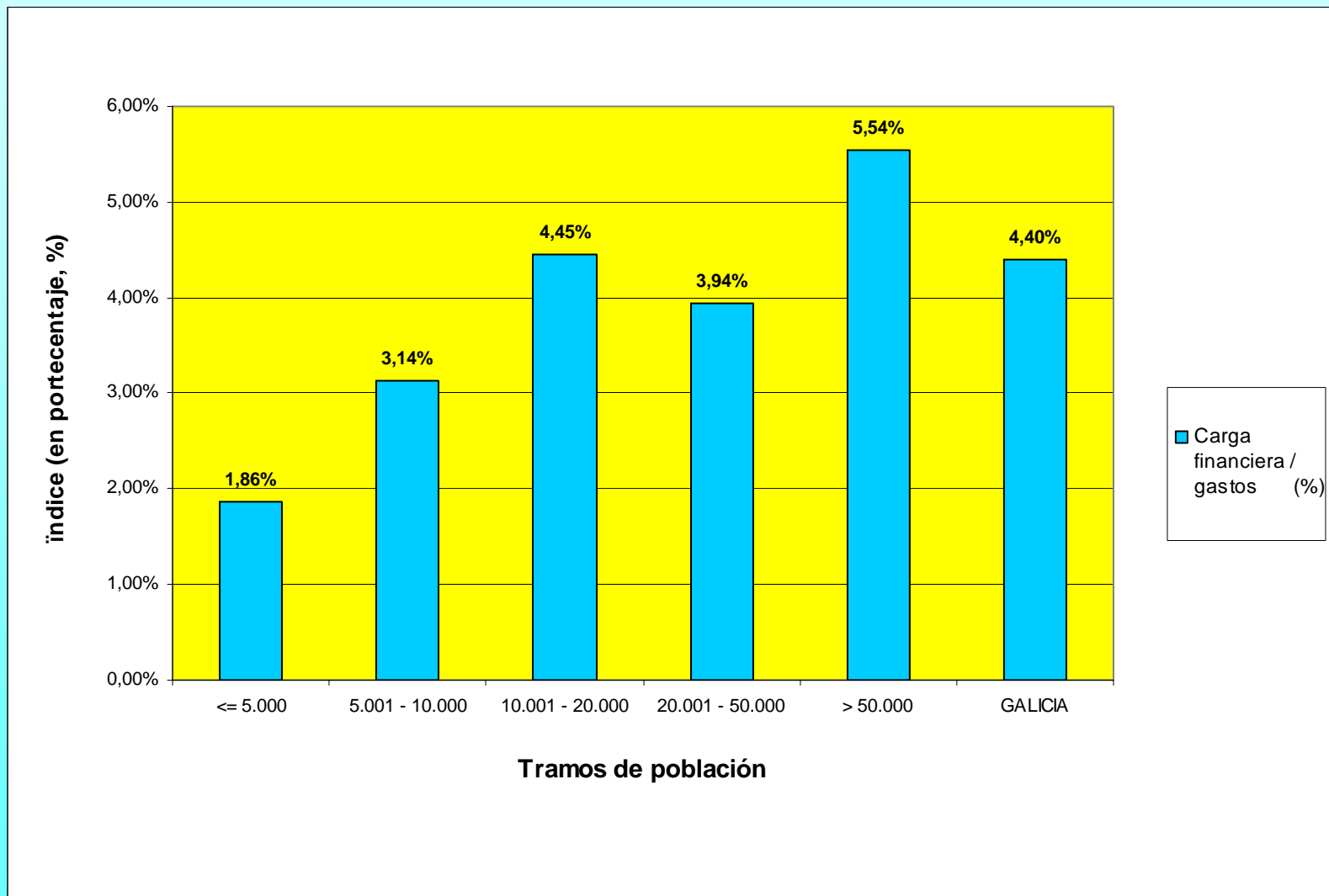
FINANCIAL DEBT



Financial burden / expenditure (%)

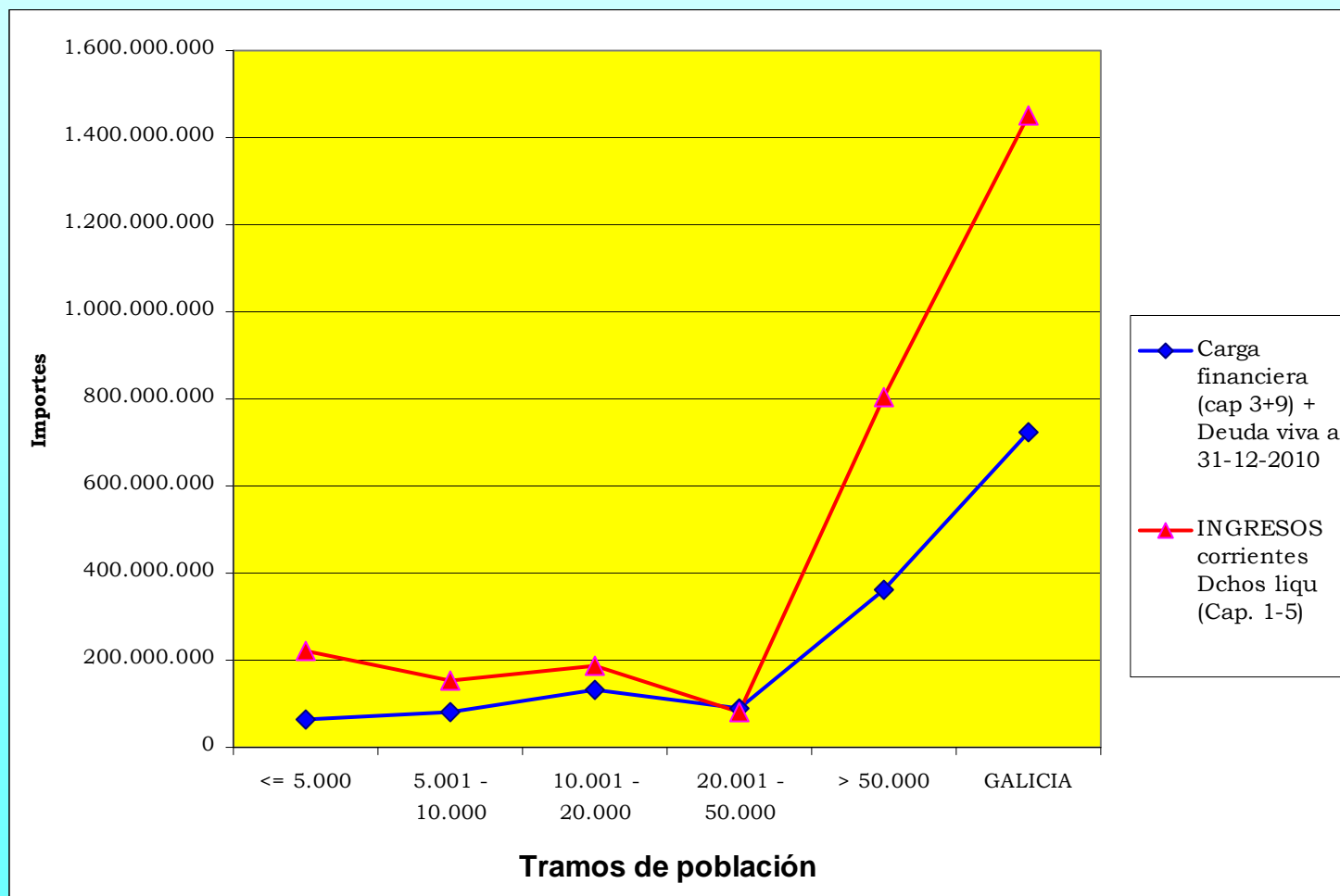
Financial year 2010

Municipalities in Galicia



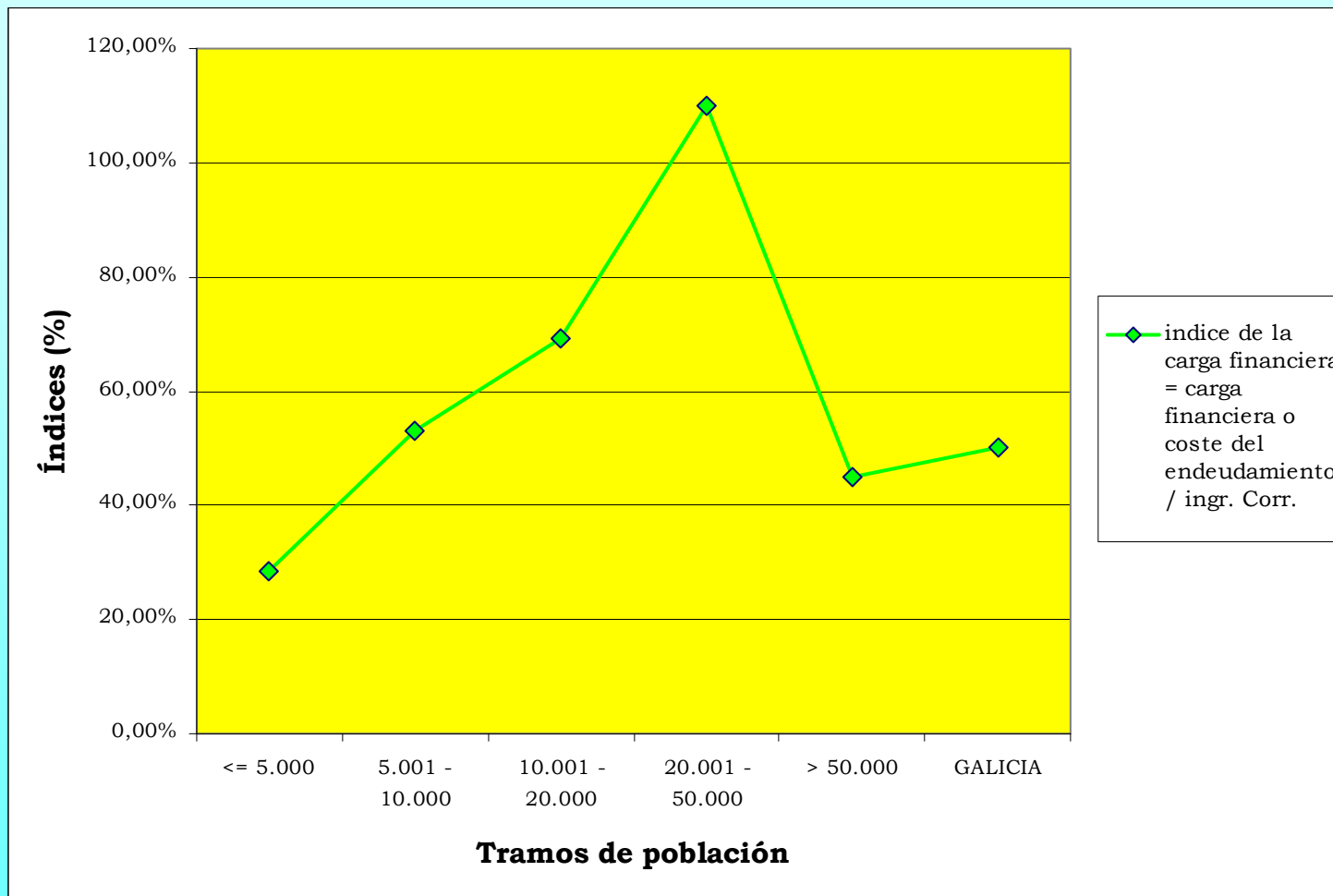


FINANCIAL BURDEN + CURRENT DEBT IN CONNECTION WITH CURRENT REVENUES (1)





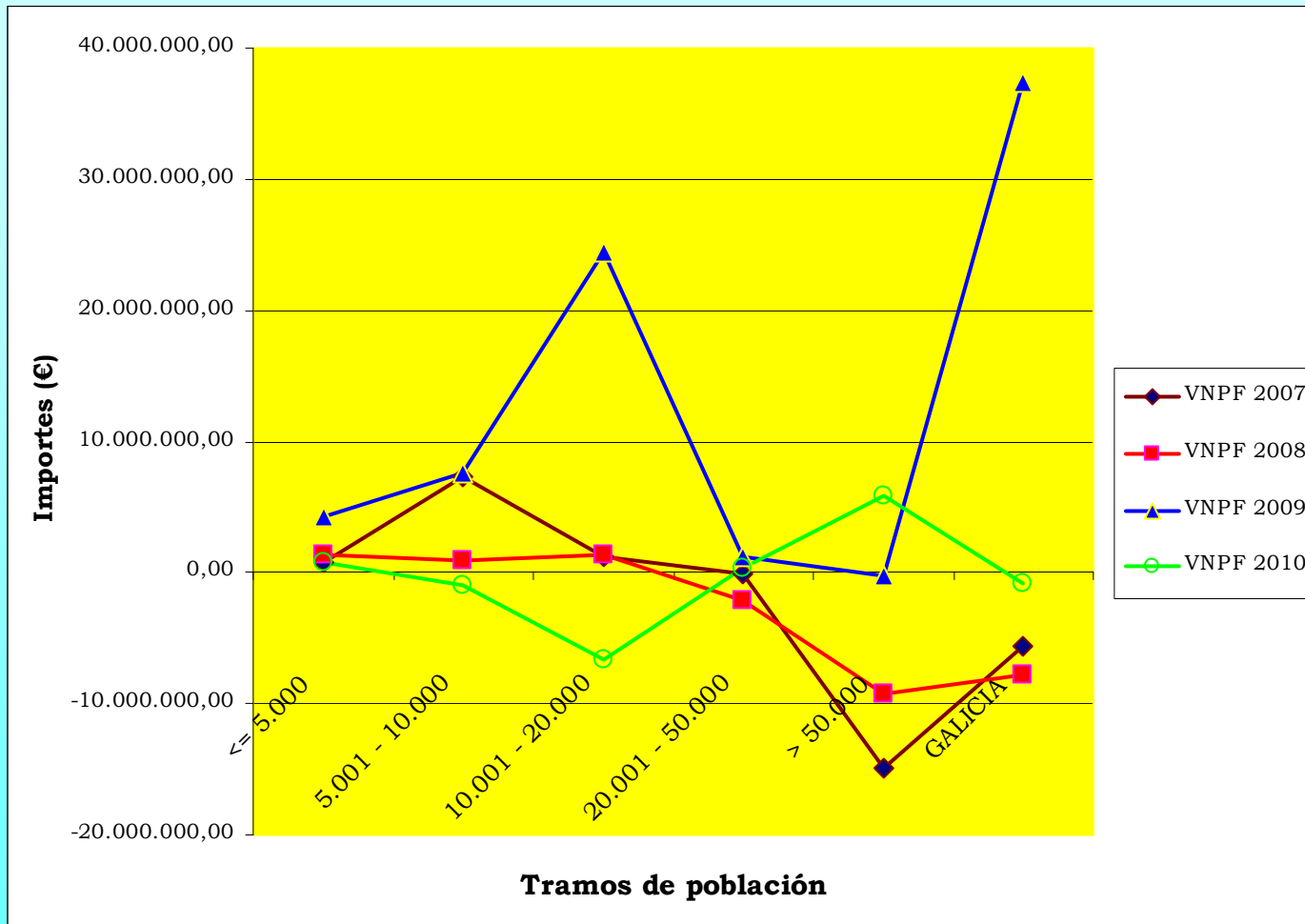
FINANCIAL BURDEN + CURRENT DEBT IN CONNECTION WITH CURRENT REVENUES (2)





NET CHANGES IN FINANCIAL LIABILITIES

Comparative evaluation 2007-08-09-10



Thank you very much for your
attention!



Santiago de Compostela
welcomes you with open
arms.