

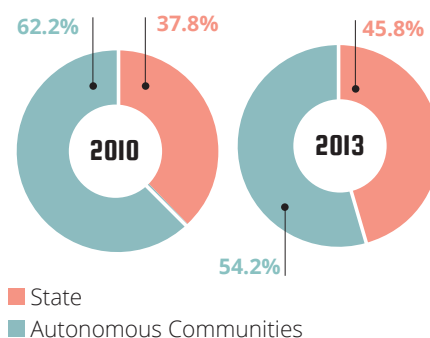
Inefficiencies and negative effects of the current financing model

The Catalan Ministry of Economy and Knowledge has sent the Spanish Government a report analysing the application of the financing model of the autonomous communities during the period 2009-2013¹. This analysis reveals the following conclusions:

● **It is not sustainable**, as this financing model does not make it possible to maintain the quality of public services across all the autonomous communities.

● **There is a vertical imbalance between the State and the autonomous communities as regards the distribution of resources.** From 2010 to 2013, State resources increased at a year-on-year rate of 8.3%, while those of the communities fell by 3%.

GRAPHIC1: DISTRIBUTION OF RESOURCES BETWEEN THE STATE AND THE AUTONOMOUS COMMUNITIES UNDER THE COMMON REGIME (*)



(*) Available resources are tax income plus/minus transfers from the financing model.

Sources: Monthly tax collection report of the AEAT, quarterly report on collection of fully assigned taxes, BADESPE, settlement of the financing system of the autonomous communities under the common regime, advance payments of the financing system of the autonomous communities under the common regime, budget settlement of autonomous communities and State.

● **It retains the arbitrary nature of the previous model.** The Global Sufficiency Fund and the Convergence Funds (with two sub-funds: Competitiveness and Cooperation) introduce severe distortions in the distribution of resources among the communities. In this respect, autonomous communities which in terms of tax capacity (volume of resources contributed) are above average end up receiving below average. It also occurs that autonomous communities with a similar tax capacity are treated very differently in terms of resources received. These inequalities are aggravated when we consider the cost of living differential.

● **Spending on Health and Education (a competence of the autonomous communities), after a period approaching the European levels, has fallen progressively** since the year 2009 to levels prior to 2002, as a result of the crisis and the superior efforts in the fiscal consolidation required of the autonomous communities. On the other hand, global State public spending is progressively reaching European levels.

● **It is based on estimations:** most of the income of the financing model is managed by the State Tax Agency (AEAT) as the autonomous communities only manage the fully assigned taxes. Those partially

1. The full report on the financing model sent to the Spanish Government is available in the following link: http://economia.gencat.cat/ca/20_departament/publicacions/butlleti_de_publicacions/darrer_butlleti/

assigned (VAT, Personal Income Tax...) are managed by the AEAT, and the autonomous communities receive them via estimation-based advance payments determined by the Spanish Government which are settled with two years' delay. However, the budget of the autonomous communities is formulated based on this advance payment forecast carried out by the State. In many cases the income forecast has been unrealistic. For example, in 2014 the Spanish State transferred to Catalonia €1,400m less than those due given the real collection for the year.

● **The evolution of the resources received by the autonomous communities has had no positive relation with the growth in the population,** nor with the adjusted population indicator used by the current financing model. This is due to the complexity of the model and the workings of the funds for equalisation and solidarity.

● **There exists a clear relationship between the resources provided by the financing model and the evolution of the deficit of the autonomous communities.** In general, the autonomous communities of the Mediterranean coast are those most underfunded and also those with the higher deficit over recent years.

● **The financing model establishes that the collection due to increases in the rate of VAT and special taxes carried out by the State over recent years must be neutralized and deducted from the Global Sufficiency Fund,** which prevents the autonomous communities from receiving the resources arising from these tax increases. It also represents an increase in spending by the autonomous communities as they also suffer this greater fiscal pressure.

● Catalonia is the second autonomous community with the highest prices (according to figure from 2012). **Therefore, the real resources in per capita terms are below those shown by the results of the model.** For example, in 2013 Catalonia was the tenth community in resources per capita transferred via the model but, if we consider the cost of living differential, Catalonia falls to fourteenth place. ■