

Spanish (Regional) Decentralization

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The basic structure of the Spanish system of regional financing is based on four fundamental components. The first one is the distribution of tax resources and competencies between the different levels of administration and the different territories that determine the potential tax revenues or fiscal capacity of each administration and their level of income autonomy. The second one is a formula that determines spending needs or leveling objectives. This formula tells us how the resources available between the regions should ideally be distributed so that all of them could offer the same standard basket of public goods and services. This rule is implemented through an adjusted population variable that replaces the real population of each territory for the purposes of many of the calculations required by the financing system to distribute the available resources among the regions (“autonomous communities” in Spanish). The last two elements are a series of transfers that flow horizontally (between regions) and vertically (from the central administration to the regions). Its main objective is to equalize the resources of territories with different levels of income to provide the services of its competence, that is, to reduce the discrepancies between the fiscal capacity of each territory and their spending needs.

Regional Expenditures

According to the share of sub-national expenditure over the total, Spain ranks fifth in the OECD. This result is somewhat surprising as barely three decades ago the central government was responsible for 91% of expenditure and local authorities for a mere 8.9%, whereas today the subnational governments account for 50% of expenditure, three-quarters at the regional level. The regional level of government has been assuming powers and resources transferred by the central administration. It has specialised in the provision of basic welfare-state services (health, education, social protection and housing), as well as in certain economic matters and infrastructures.

The theory of fiscal federalism offers general guidelines regarding the division of public sector functions between different levels of government, which can be summarized as follows: public services with national benefits should be assigned to the central government, while that those whose benefits are territorially limited must be supplied by the lower levels of government. On the other hand, within a territory with a high degree of mobility, the distribution function should fall essentially at the central level, as well as the stabilization function. Therefore, the allocative function is based on the classic theory of fiscal decentralization.

The assumption of powers by the various Autonomous Communities has been conditioned directly by the access way to the autonomous status, which has determined a clear distinction in the temporal development, which has prevailed until 2002: on the one hand, the CCAA of article 143, initially, they were classified as having a reduced competence ceiling, classified into two subgroups, the first constituted by the pluriprovincial CCAA or the “common competences”, while the second group included the Communities that, due to their uniprovincial character, have also attributed the powers of the Provincial Councils (Asturias, Cantabria, Rioja, Murcia, Baleares and Madrid); on the other hand, in the section of the Autonomous Regions of article 151, or of high competence ceiling, the Basque Country, Navarre, Catalonia, Galicia, Andalusia, Valencian Community and Canary Islands were included.

Currently, all the Autonomous Regions have, in general terms, the same competencies regarding their responsibilities in the provision of public goods and services and transfers. In order to provide a synthetic view of the role and weight of the Autonomous Communities and, specifically, in terms of exhaustive expenditure, the Autonomous Communities absorbed 58.2% of the total remuneration of salaried employees in 2003, 41.9% of intermediate consumption and 39.0% of the total gross capital formation. It highlights, on the other hand, the almost exclusive role of the CCAA within social transfers in kind and the realization of more than half of the global amount of capital transfers.

In relation to functional classification, it highlights, in the first place, the role of the regional administrations in the **health and education** functions, in which they channel almost 90% of the total expenditure. It is also appreciable its participation in the rubrics of **economic affairs** (40.5%) and of **recreational, cultural and religious activities** (30.9%) and, to a lesser extent, in **housing and community services, and environmental protection**, in both cases above 20%.

Overall, regional financing must be based on a criterion of equity: for a same fiscal effort and the same needs, a rich region must have the same resources as a poor region, as well as the same public services. That is, the final resources that the regional financing system makes available to the regions must be aligned with their spending needs and be independent of their fiscal capacity. Thus, before performing some of the calculations required by the financing system, the real population is adjusted through the following procedure. These adjustments are made to take into account cost differences between territories when setting the leveling objectives and also can be seen as a way of calculating the spending needs of the different regions, understood as the volume of resources would be necessary in each of them to offer a uniform level of public services throughout the country. The function of the leveling mechanisms included in the Spanish system is to bring the funding of each region closer to this equal distribution or, equivalently, to reduce the differences in resources between rich and poor when we consider only their potential tax revenues.

In the Spanish case, the formula of expenditure needs incorporates the main demographic and geographic variables that affect the demand for public services managed by the autonomous communities (including health, education and social services) or their unit costs. Table 1 shows the variables included in the currently valid formula and their weights, that is, the fraction of available resources that is distributed in proportion to each of these variables to estimate regional spending needs. Thus, 30% of the total resources of the system are distributed in proportion to the unadjusted regional population and 1.8% in proportion to the regional area, while 0.6% of the total is reserved for the two island regions, Balearic and Canary Islands. The dispersion of the population is measured by the number of nuclei (singular entities) of population that exist in each autonomous community. The educational expenditure needs are assumed proportional to a measure of the school-age population (the population between 0 and 16 years old) and the needs for health expenditure are approximated by a weighted population indicator that weights different age segments in proportion to their average annual health expenditure (population equivalent to health effects). Therefore, the total volume of available resources of the system is taken as

given and the formula tells us how to distribute it to ensure that all regional administrations can provide similar services with the same fiscal effort, that is, without modifying the standard scales of tax.

VARIABLES IN THE SPANISH FORMULA OF EXPENDITURE NEEDS AND THEIR WEIGHTS

Variables	Weights
Equivalent protected population	38%
Population	30%
School-age population (0-16 years old)	20.5%
Population +65 years old	8.5%
Area	1.8%
Population dispersion	0.6%
Insularity	0.6%

The formula described in Table 1 is also used to calculate the adjusted population of each region, a variable that measures expenditure needs in an especially convenient way. In this case, what is distributed according to the criteria summarized in the table are not the total resources of the system but the total population of the Spanish regions of the common system (except for the provincial ones, which enjoy a special fiscal system). What is achieved with this exercise is to weight regional populations by a factor that captures (the estimation made by the system) the relative cost per inhabitant of providing the main public services of autonomous ownership at a uniform level of quality in all regions. By dividing the financing of each region by its adjusted population, an indicator of financing per unit of need or adjusted per capita is obtained, which is usually used to assess the equity of the distribution of resources between regions. This indicator also offers an operational leveling criterion: if the objective is to ensure that all citizens, regardless of their residence, have equal access to public services managed by the CCAA, what we have to do is equalize the per capita financing adjusted of all of them.

Thus, once the tax revenues have been allocated to the regions and the spending needs have been calculated, the Spanish system tries to reduce the differences that may exist between both variables through a series of transfers that flow horizontally between regions and vertically between the central government and the regions.

Summary about the new model from 2009

The current model started on January 1/2009, in full recession, but with a generous endowment - which was financed through indebtedness. The model is based on the whole territory of the common system, including Ceuta and Melilla, except in the Basque Country and Navarre, which have their own systems for the protection of the Constitution. And it was born with 11,000 million to ensure the sufficiency of the system. Something that, only in part, has been achieved.

The new model sought greater fiscal co-responsibility, for which the percentages of the transfer of taxes were increased, the rights of the autonomous communities, their regulatory powers for financial capacity. In this way, if we have the previous model, 70%, all the resources of the regions, the procedures of the taxes partially or totally ceded by the State, the new system, this time was around 90%.

The Distribution criteria are the following. Equivalent protected population: 38%; population: 30%; school-age population (between zero and 16 years old): 20.5%; population over 65 years: 8.5%; surface: 1.8%; population dispersion: 0.6%, and insularity: 0.6%.

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The leveling instrument is the so-called Guarantee Fund (FG) (en español, Fondo de Garantía), which did not exist in previous models. This Fundamental Public Services Guarantee Fund intended that all the Autonomous Regions receive the same resources per capita in terms of adjusted population, not only in the first year of application but also in the future. It is the fund that channels the bulk of the system's resources, and functions as a kind of single box that is distributed among the regions in proportion to their estimated spending needs. The FG is fed with 75% of the standardized tax revenues of the autonomous communities and with an additional contribution from the State. In 2014, the total resources of the fund amounted to 76,000 million euros (including a contribution from the central government), which represented 80% of the system's ordinary resources.i.

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