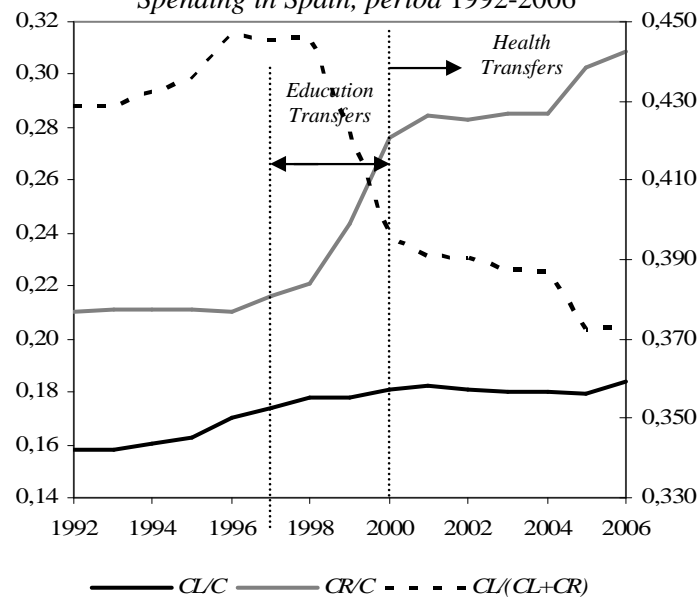


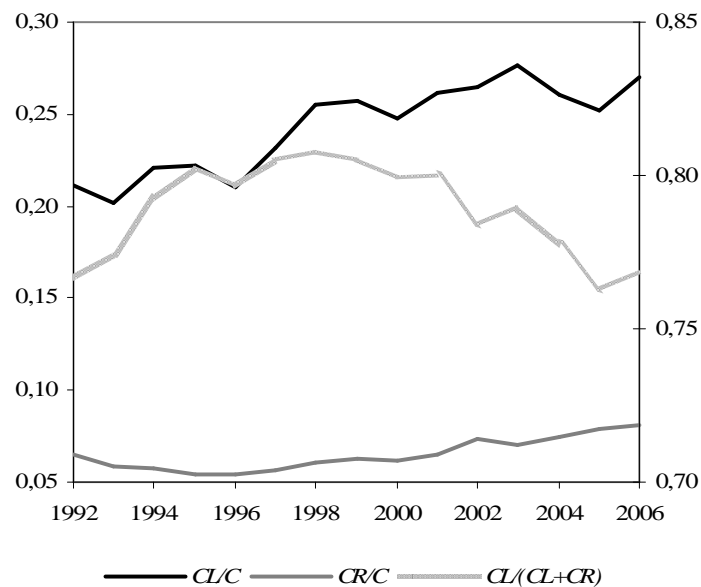
Figure 1: *Share of Local Spending on Public Spending in Spain, period 1992-2006*



Notes: (1) CL/C : Total spending (Current + Capital) by Local Governments (Municipalities + Provinces + Islands) over Total spending by All layers of government (Local + Regional + Central); CR/C : Total spending by Regional Governments (Autonomous Communities, AC's) over Total spending by All layers; $CL/(CL+CR)$: Total Local spending over Total Local + Regional spending (shown on the right axis).

Source: *Cuentas de las Administraciones Públicas*, from BADESPE, Instituto de Estudios Fiscales

Figure 2: *Share of Local Capital Spending on Public Capital Spending in Spain, period 1992-2006*



Notes: (1) Same than in Table 1 but for Capital spending.
Source: see Table 1.

Table 1: *Local governments in Spain*

<u>Local governments (art. 137 & 141.4 CE)</u>	<i>Number</i>
Municipalities (<i>Ayuntamiento</i>)	8,109
Upper-municipal governments:	
- <i>Diputaciones</i>	40
- <i>Cabildos</i> and <i>Consells</i>	10
 <u>Other local entities (art. 3.2. LRBRL)</u>	 <i>Number</i>
Cooperative entities (<i>Mancomunidades</i>)	997
Counties (<i>Comarcas</i>)	81
Metropolitan areas	4
Lower-Local entities (<i>Entidades locales menores</i>)	3,717

Source: Ministerio de Economía y Hacienda (2006): *Las Haciendas Locales en Cifras* (<http://www.meh.es>).

Table 2: *Share of different Local Governments on Local Spending in Spain, year 2006*

	<i>Total</i>	<i>Capital</i>
Municipalities (<i>Ayuntamiento</i>)	86,32 %	84,51 %
Upper-municipal governments:		
- <i>Diputaciones</i>	10,07 %	11,49 %
- <i>Cabildos</i> or <i>Consells</i>	2,86 %	3,16 %

Notes: (1) Total: non-financial spending (chapters 1 to 7 of the budget); Capital: capital spending (chapters 6 and 7).

Source: Same as Table 1.

Table 3: *Share of Transfers on Local Spending of different Local Governments in Spain, year 2006*

	<i>Total</i>	<i>Capital</i>
Municipalities (<i>Ayuntamiento</i>)	10,76 %	10,61 %
Upper-municipal governments:		
- <i>Diputaciones</i>	30,08 %	42,25 %
- <i>Cabildos</i> or <i>Consells</i>	34,86 %	28,66 %

Notes: Total: current (chapter 4) + capital transfers (chapter 7)/ non-financial spending; Capital: capital transfers / capital spending

Source: Ministerio de Economía y Hacienda, *Las Haciendas Locales en cifras*, 2006.

Table 4: *Size distribution of Spanish municipalities, year 2006*

	<i>Municipalities</i>		<i>Population</i>	
	<i>Number</i>	<i>%</i>	<i>Number</i>	<i>%</i>
<5,000	6,853	84.51	6,010,730	13.49
5,000 to 20,000	895	11.04	8,692,664	19.51
20,000 to 50,000	228	2.81	5,786,025	12.98
50,000 to 100,000	74	0.91	5,169,332	11.60
100,000 to 500,000	53	0.65	10,456,384	23.46
500,000 to 1,000,000	4	0.05	2,716,895	6.10
>1,000,000	2	0.02	4,734,202	10.62
<i>Total</i>	8,109	100.00	44,566,232	100.00

Source: Instituto Nacional de Estadística (www.ine.es)

Table 5: *Spending Responsibilities of Spanish Municipalities*

	<i>Responsibilities</i>
All Municipalities	Public lighting, Street cleaning, Refuse collection, Water supply, Paving of local roads, Food and drink control
Municipalities with:	
- Population > 5,000	Parks, Libraries, Market place, Solid waste treatment
- Population > 20,000	Fire protection & Emergencies Social services, Sport facilities, Slaughterhouse
- Population > 50,000	Urban passenger transport, Environmental protection

Note: (1) These are the so-called ‘Compulsory’ responsibilities.
Source: Local Government Act, 1985 (“Ley Reguladora de Bases de Régimen Local”).

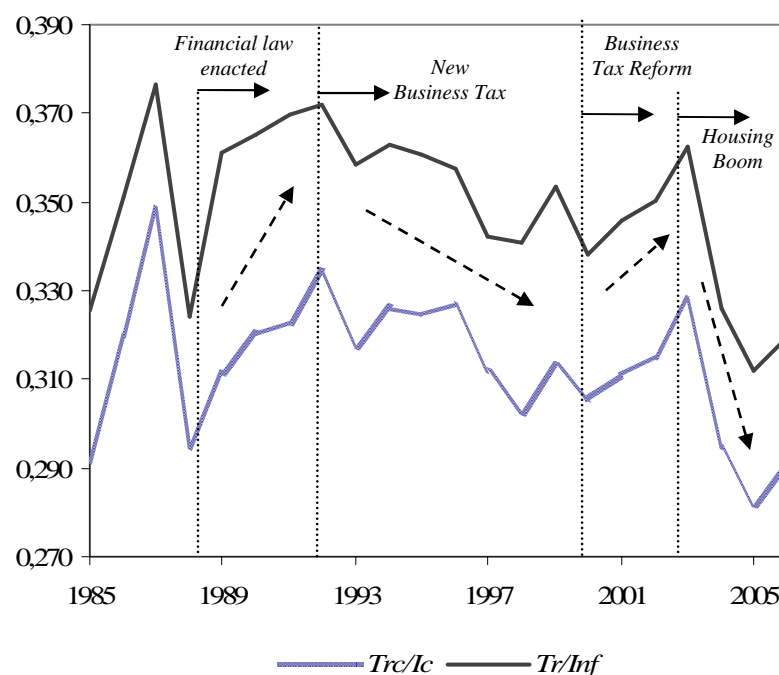
Table 6: *Revenues of Spanish Municipalities, year 2006*

<i>Revenue source</i>	<i>% over Taxes</i>	<i>% over Own-rev.</i>	<i>% over Non-fin.rev.</i>
Property tax	48.99	29.63	17.31
Vehicle tax	14.39	8.71	5.08
Business tax	9.36	5.66	3.31
Construction tax	17.48	10.57	6.17
Land transactions tax	9.78	5.92	3.46
Taxes	100.00	60.49	35.33
User charges and Prices		19.06	11.13
Asset revenues		20.44	11.94
Own revenues		100.00	58.40
Transfers			41.60
Non-financial revenues			100.00

Note: (1) Property tax: *Impuesto sobre Bienes Inmuebles* (IBI); Vehicle tax: *Impuesto sobre Vehículos de Tracción Mecánica* (IIVTM); Business tax: *Impuesto sobre Actividades Económicas* (IEA); Construction tax: *Impuesto sobre Construcciones, Instalaciones y Obras* (ICIO); Land transactions tax: *Impuesto sobre Incremento del Valor de los Terrenos de Naturaleza Urbana* (IIVTNU); Asset revenues: include Building licences, Selling of land plots, Charges to developers and Concessions; Own revenues: Taxes + User charges and Prices + Asset revenues; Transfers: include both current and capital transfers; Non-financial revenues: Own revenues + Transfers.

Source: Same as Table 2.

Figure 3: *Share of Transfers (Total & Current) on Local Revenues in Spain, period 1985-2006*



Notes: (1) *Tr/Inf*: Total transfers (Current + Capital, chapters 4 and 7 of the budget) to Local Governments (Municipalities + Provinces + Islands) over Non-financial revenues (chapters 1 to 7 of the budget); *Trc/Ic*: Current transfers over Current revenues (chapters 1 to 5). (2)

Source: Ministerio de Economía y Hacienda (several years): *Liquidación de los Presupuestos de las Corporaciones Locales*.

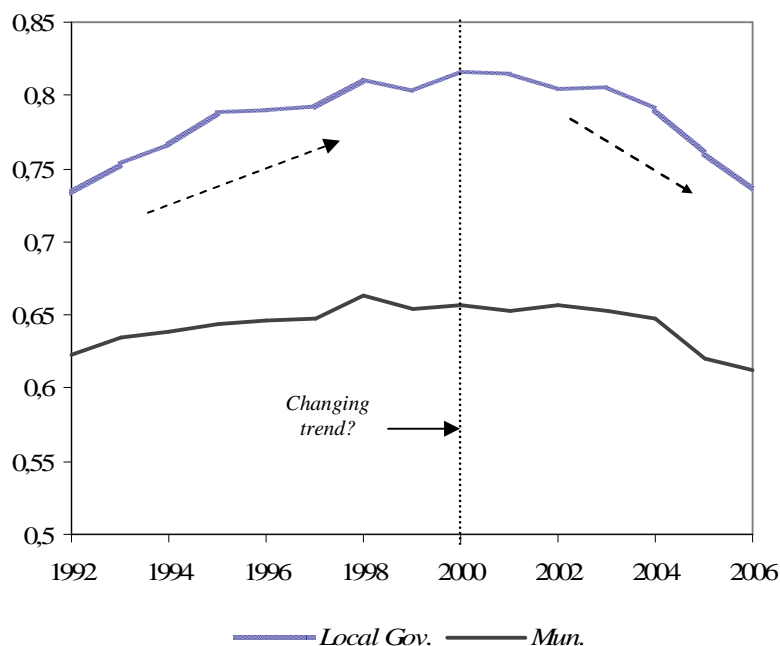
Table 7: *Transfers to Local Governments by Grantee and Grantor, year 2006*

Grantee	Grantor	Central gov.	Current transfers			Total
			AC	Diputación	Other	
Municipalities		51,8	27,7	13,8	6,6	100
Upper-Municipal governments						
- Diputaciones		84,6	9,6	0	5,8	100
- Cabildos or Consells		39,5	54,2	0	6,3	100
All Local Govenments		57,3	25,5	10,7	6,5	100
Grantee		Central gov.	Capital transfers			Total
			AC	Diputación	Other	
Municipalities		9,8	51,9	18,4	19,8	100
Upper-Municipal governments						
- Diputaciones		29,9	38,8	0	31,3	100
- Cabildos or Consells		10,9	72,7	0	16,3	100
All Local Govenments		12,2	51,5	15,3	21,0	100

Notes: Share of the transfers coming from each Grantor (in columns) on transfers received by each Grantee (in rows), expressed in %.

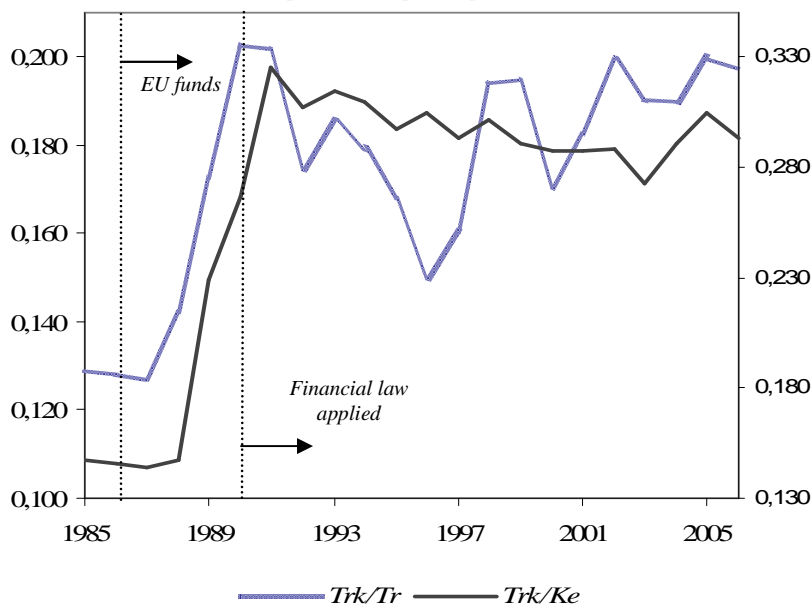
Source: Same as Table 2.

Figure 4: *Share of Non-Earmarked grants on Current transfers in Spain, period 1992-2006*



Notes: (1) Share (in %) of Non-earmarked grants on Current Transfers (chapter 4); PTE computed as definitive outlays.
Source: Same as Figure 3.

Figure 5: *Share of Capital Transfers in Total Transfers (Current + Capital) in Spain, period 1992-2006*



Notes: (1) $Trk/(Trk+Trc)$: Capital transfers over Total transfers (Current + Capital) to Local Governments (Municipalities + Provinces + Islands); Trk/Ke : Capital transfers over Capital spending (chapters 6 to 7), shown on the right axis.
Source: Same as Figure 3.

Table 8: *Revenue-sharing grant (PTE) allocation formula, period 1992-2006*

	<i>Before 1999</i>	<i>1999-2002</i>	<i>After 2002</i>
Weighted Population share (1)	70%	75%	75%
- Weight < 5.000 inh.	1	1	1
- Weight 5.000 a 20.000 inh.	1.15	1.15	1.17
- Weight 20.000 a 50.000 inh.	1.3	1.3	1.3
- Weight 50.000 a 100.000 inh.	1.4	1.4	1.4
- Weight 100.000 a 500.000 inh.	1.5	1.5	--.--
- Weigh >500.000 inh.	2.85	2.8	--.--
Fiscal effort share (2)	25%	14%	12.5%
Inverse fiscal capacity (3)	--.--	--.--	12.5%
School units (4)	5%	--.--	--.--
Eligible municipalities (5)	All	All	All less >75,000 inh. + Tourism

Note: (1) Resident population x Weight, weight increasing according to population size. (2) Ratio between Local Tax Revenues from the three main taxes (Property, Vehicle & Business) and Potential Local Tax Revenues (those obtained if applying the maximum tax rates allowed by the law). (3) Inverse of the ratio of Local Tax revenues per capita on Average Local Tax revenues per capita of the corresponding population size bracket. (4) Number of public school classrooms. (5) Since 2003 municipalities >75.000 inh. and Tourism municipalities are funded with a share of revenues from the Income Tax, VAT & Excises on Tobacco and Alcohol + a lump sum fund (*Fondo Complementario de Financiación*, FCF), computed as the difference between PTE and tax sharing revenues in a base year. Source: *Ley Reguladora de Haciendas Locales* (1988 & 2002) and own elaboration.

Table 9: Allocation criteria for a Traditional Grants Program:
The case of the AC of Catalunya (Pla Unic d'Obres i Serveis, PUOSC)

a) Primary allocation by County	
- Number of residents (Higher weight big mun.)	- Number of houses (Higher weight big mun.)
- Number of municipalities	- Number of towns
- County land area	- Mountain county
- Unemployment rate	- Personal income
- Municipal tax revenues	
b) Minimum municipal transfer	
- Fixed amount	- Number of residents
c) Project selection	
<u>Type of project:</u>	
- Compulsory municipal responsibilities	- Urgent projects
- Project complementary to AC's policies	- Supra-municipal projects
<u>Municipality's traits:</u>	
- Fiscal capacity	- Grants in previous calls
- Fiscal effort	- Proximity to Power plants
- Number of residents	- Municipal amalgamations
- Number of towns	- Special regime municipalities
<u>Actual provision level</u>	
d) Funding rate (50% maximum)	
- Type of project	- Fiscal capacity
- Supra-municipal projects	- Municipal amalgamations
- Municipality's traits	- Disaster relief (100% maximum)

Notes: (1) According to the Law 23/1987, fixing the criteria for funding the PUOSC and the basis for selecting and funding the projects.

Table 10: *Comparing two different transfer models:
Traditional Grant Programs vs. Inter-governmental Contracting*

	<i>Traditional Grant program</i>	<i>Iner-governmental Contracting</i>
Orientation	Towards the procedure of awarding and managing the grant	Towards the accomplishment of goals established in the contract, with the compromise of evaluating the policy
Relationship between actors	Hierarchical, there is a grantor institution in front of an applicant and lately grantee	Equality and collaboration, both layers are contracting parts in process which takes into account both will and interests between them
Decision-making	Unilateral, the grantor award a grant in relation to an application (this application is the only signal of local autonomy)	Bilateral and bargained. Bottom-up: proposal for collaboration originating in local entities, as a manifestation of their autonomy
Kind of aid	Based on economic transfers	Integral intervention: economic aid, but also project writing, execution of public works, technical advice, cession of goods and equipment
Working system	Divided in programs and bureaucratic, since grants are managed in a fragmented way often by different units which compete amongst them	Networking transversal system. There is only one contact between the different units of the grantor and the local government.

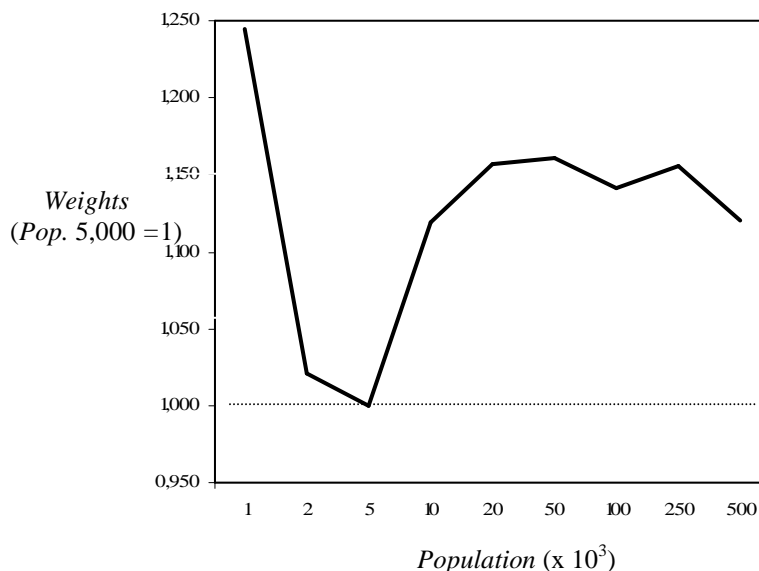
Source: Diputació de Barcelona (2009).

Table 11: *A Capital Transfers Program based on Inter-governmental Contracting: The case of the Diputació de Barcelona (Xarxa Barcelona Municipis de Qualitat, XBMQ⁽¹⁾)*

Step:	Instruments:	Tasks:
1) Goal setting	- General contract ⁽²⁾ (<i>Protocol General XBMQ</i>)	- Local Governments's acceptance
2) Implementation	- Needs registry - Contracting forums (<i>Meses de Concertació</i>) - Pre-agreements registry - Activities registry - Specific contracts	- Submission of needs with ranking - Process of assessing and bargaining the Pre-agreements - Process of legal formalization of activities - Execution and follow-up
3) Evaluation	- Public report - Observatory of XBMQ	- Publishing the report - Closing the contract

Notes: (1) *Xarxa Barcelona Municipis de Qualitat* can be translated to English as Barcelona Network of Quality Municipalities. (2) We use the term Contract to refer to a *Conveni*, which in Spain is a document that specifies the duties of the parties (here two layers of government) in developing a concrete activity or program. A *Conveni* marc or *Protocol General* is a similar to a *Conveni* (hence the term General contract), but is very general and global; establishes the umbrella where the contractual relationship of the parties will evolve; further development is needed in form of Specific contracts (*Conveni específic*) which specify the responsibilities of each part regarding the activities to be developed (see Solé-Ollé, 2007, and MAP, 2002). Source: Diputació de Barcelona (2009).

Figure 6. *Estimated Population Weights*



Notes: (1) Population weights are equal to 1 for the base category (5,000 residents). (2) These weights are estimated by fitting a piecewise linear function to non-financial spending per capita, after controlling for a wide set of potential confounding variables. Source: Bosch and Solé-Ollé (2006).

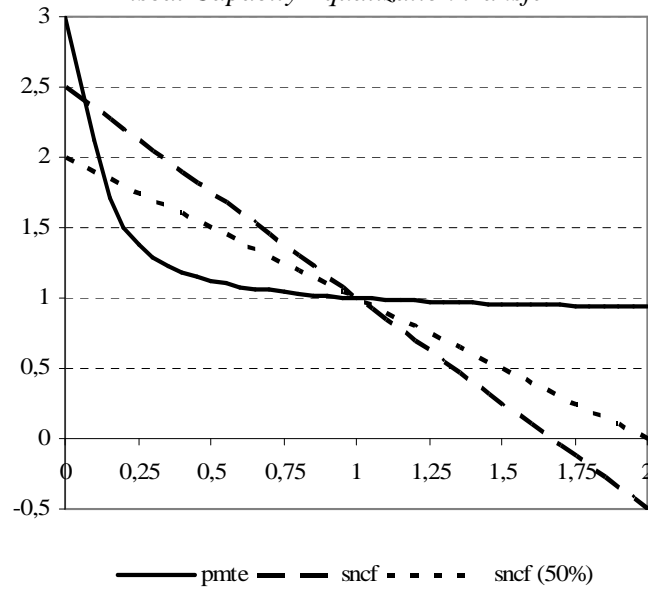
Table 12: *Determinants of Capital transfers and Capital spending in Spanish municipalities*⁽¹⁾

	<i>Capital transfers/pop</i>		<i>Capital spending /pop.</i>	
- Spending needs:				
1/Population	15,605 (15.56)***	109,164 (14,87)***	35,395 (3,05)***	37,603 (3,43)***
Growth in population + Houses	-.-	-.-	-.-	6,16 (3,83)***
Growth in employment	-.-	-.-	-.-	3,77 (1,60)
- Resources:				
Fiscal capacity/pop.	-.-	-.-	0.301 (3.60)***	0.213 (2.62)***
Capital transfers/pop.	-.-	-.-	0.935 (6.86)***	0.938 (7.30)***
Debt	-.-	-.-	-0.277 (2.68)***	-0.282 (-2.90)***
Resident income/pop.	-.-	-.-	0.015 (3.67)***	0.004 (1.06)
R ²	0.611	0.589	0.838	0.858
F-statistic	242.13***	221.14***	156.91***	129.35***

Notes: (1) Sample of 200 municipalities of the province of Barcelona during the term-of-office 2000-04. (2) Capital transfers: capital transfer from the *Diputació de Barcelona*. Capital spending: chapters 6 and 7 of the budget. Population: resident population in 1999. Growth of population + Houses: growth rate of resident population + number of urban units 2000-04. Growth of employment: growth of full time wage earners during the same period. Fiscal capacity: computed using the average tax system for the municipalities of the sample and appropriate tax base indicator for each local tax. Debt: net debt in 1999. (3) Equations estimated by Ordinary Least Squares, with standard errors robust to heteroskedasticity. (4) t-statistic in parenthesis. *, ** & ***: parameter statistically different from zero at the 90%, 95% and 99% levels.

Source: Solé-Ollé and Sorribas (2008).

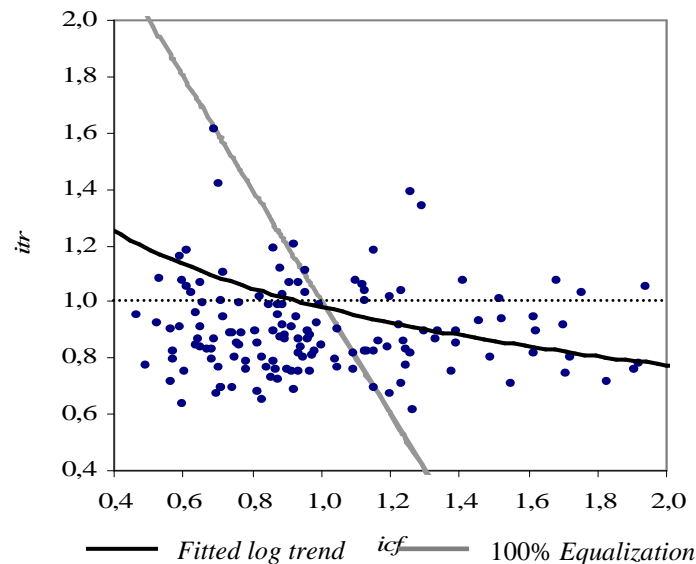
Figure 7. Comparing the PTE to a Fiscal Capacity Equalization transfer



Note: (1) pmte = Participación en los Tributos del Estado (PTE), which is the main unconditional transfer received by Spanish municipalities. Sncf = 100% Fiscal Capacity equalization transfer. Sncf (50%) = 50 Fiscal Capacity equalization transfer. The three transfer schemes are expressed in index (average =1) and plotted against an Index of Fiscal Capacity per capita (average =1); see notes of Table 12 for a description of its calculation.

Source: Solé-Ollé (2009)..

Figure 8. Comparing Current Transfers to a Fiscal Capacity Equalization transfer



Note: (1) itr = current per capita transfers in index; icf= fiscal capacity per capita in index; data coming from a sample of 200 municipalities of the province of Barcelona.

Source: Own elaboration.