

# PUBLIC EXPENDITURE EVALUATION 2018

## PROJECT 1 (CROSS-CUTTING)

### STUDY

### EVALUATION OF SUBSIDY STRATEGY AND PROCEDURE



Independent Authority  
*for* Fiscal Responsibility





The Independent Authority for Fiscal Responsibility (AIReF by its Spanish acronym) was created in order to oversee strict compliance with the principles of budgetary stability and financial sustainability set out in article 135 of the Spanish Constitution.

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# CONCLUSION OF THE EVALUATION

The first phase of the Spending Review, carried out by AIReF in Spain in 2018, focused on the evaluation of public subsidies, broadly defined in accordance with the central criterion of outflow of public funds without direct compensation. This demarcation of the evaluation scope has made it possible to analyse expenditure items with significant impact on public accounts, despite the fact that the strict scope of the General Subsidies Law (GSL) does not cover these and that they do not qualify as subsidies for national accounting purposes.

In this first phase, seven projects were implemented:

1. Evaluation of strategy and procedure.
2. Medication dispensed via prescription.
3. Active employment policies.
4. University education scholarships. Central Administration.
5. Talent promotion and employability in R&D&I.
6. Strengthening business competitiveness.
7. Sociedad Estatal de Correos y Telégrafos (Postal and Telegraph Service National Company).

The first project, which is the subject of this study, focused on the evaluation of the strategy and procedures followed when granting public subsidies and is structured around three themes:

- **Theme 1: Strategic planning.** This theme attempts to provide an answer to the question of whether there is strategic planning for subsidies and, if so, if this is relevant, coherent and consistent.
- **Theme 2: Coordination mechanisms.** This theme analyses inter-administrative coordination mechanisms, assessing their effectiveness when fulfilling their coordination functions and their relevance in defining public policies.
- **Theme 3: Analysis of procedures.** This theme focuses on procedures by evaluating the institutional environment, the applicable legal provisions and information systems.

The purpose of the project, articulated through these three themes, requires the adoption of, in this case, the concept of subsidy as established by the GSL, inasmuch as this constitutes the regulatory procedural framework, regulating key points of the evaluation such as strategic subsidy plans (SSP) or the National Subsidies Database (NSDB).

In **theme 1**, AIReF's analysis concludes that it is difficult to assess the SSP results due to their lack of scope as, despite being regulated in the 2003 GSL, they did not started to be elaborated until several years later within the territorial administrations and until 2017 in the Central Administration (CA). Without prejudice to this fact, a clear mismatch between public policies, sectoral plans, budgetary planning and strategic subsidy planning was found. This mismatch arises as the strategy, which should be the main focus from the design of public policy to its application, no matter which instrument is used, only appears at the end of the process.

In **theme 2**, AIReF's analysis concludes that sectoral conferences, a key coordination mechanism, have very heterogeneous characteristics: although there is a very large number of them, they rarely meet. In general, they have a centralist approach and a partial vision of public policies that, in many cases, is limited to the distribution of funds from the CA to the Regions.

In **theme 3**, AIReF's analysis concludes that existing legislation is insufficient in its coverage and is outdated, sometimes creating excessive administrative burdens for managers and beneficiaries. Furthermore, the controls only focus on legality, ignoring the evaluation of effectiveness and efficiency that is also included in current regulations. Finally, there is scope to improve transparency in the subsidy process and to take advantage of the full potential offered by the existence of a national subsidies database.

### 1. STRATEGIC PLANNING

Is there strategic planning for subsidies?  
Is it relevant, coherent and consistent?

**Analysis performed:**

- Assessment of strategic subsidy plans
- Connection and coherence of strategic planning of subsidies with:
  - Budgetary programming
  - Sectoral plans

**Findings:**

- Lack of scope of the strategic plans. Only done for the State since 2017
- Mismatch between public policies, sectoral plans, budgetary programming, strategic subsidy planning.
- The strategy appears late in the process and contributes to this mismatch

### 2. INTER-ADMINISTRATIVE COORDINATION MECHANISMS

Are the coordination mechanisms effective?  
Do they avoid overlaps?  
Are they points of reference when it comes to distinguishing a public policy as a whole?

**Analysis performed:**

- Sectoral conferences and other bilateral mechanisms
- Money Map of subsidy lines for:
  - Business aid
  - Housing

**Findings:**

- Main mechanism Sectoral conferences:
  - Very high number, but few meetings
  - Partial vision and focused on money allocation
- Little participation in the definition of policies
- Centralist focus

### 3. ANALYSIS OF PROCEDURES

Do the institutional environment and legal provisions contribute to the effectiveness and efficiency of the subsidies?

**Analysis performed:**

- Analysis of the procedure:
  - Regulatory framework of the General Subsidies Law
  - Administrative burdens
- Exploitation of the NSDB
- Monitoring and control actions

**Findings:**

- Need for adaptation:
  - The General Subsidies Law
  - Excessive administrative burdens on some occasions
- Scope to take advantage of the potential offered by a national subsidies database
- Control focused on compliance with law

LACK OF TRANSPARENCY

## Proposals:

As a result of the findings, AIReF proposes a series of measures that are based on a global and inclusive vision of the problems detected and are, therefore, related to one another.

The **proposals for the first theme** are articulated in four interconnected pillars, meaning that correctly implementing each of them requires the rest to also be executed:

1. New strategic and budgetary planning framework linked to public policies within which subsidies are an instrument.
2. Creation of an integrated information and indicator system that allows for the evaluation of results.
3. Active promotion of a culture of evaluating public policies.
4. Increasing transparency, which favours accountability.

The **proposals in the second theme** are aimed at improving coordination mechanisms and are grouped into three areas:

1. Positioning the system of sectoral conferences as a network of specialised bodies to share and evaluate initiatives.
2. Creating a technical secretariat for each sectoral conference, composed of state and regional officials, to serve as a regular information channel.
3. Defining allocation criteria according to objective indicators and susceptible to review according to evidence of the outcomes.

The **proposals in the third theme** are aimed at improving the procedures that articulate the subsidies and their information systems.

The proposed measures for improving procedures focus on:

1. Clarification and extension of the scope of application of the GSL.
2. Development of the content and scope of the guiding principles for the establishment and granting of subsidies and public aid.



3. Improvement of the regulation of direct subsidies.
4. Administrative simplification of subsidy management procedures.
5. Correcting the shortcomings in the control, repayment and sanctioning procedures, strengthening aspects such as planning, the preparation of shared action protocols or coordination.

In terms of information systems, the proposals focus on improving the information and exploitation capacity of the NSDB.



# 1

## SUMMARY OF EVALUATION

### 1.1. Background

In 2018, AIReF carried out the first phase of a public expenditure review process, called the Spending Review, which focused on evaluating subsidies and public aid, broadly defined in accordance with the central criterion of outflow of public funds without direct compensation, through seven projects. The definition of the evaluation scope has allowed for the analysis of expenditure items with significant impact on public accounts, despite the fact that the strict scope of the GSL does not cover these and that they do not qualify as subsidies for national accounting purposes.

This document presents the conclusions and proposed actions for the first project, which aims to assess the strategic planning and procedure for public expenditure on subsidies for the General Government (GG). More specifically, the relevance, coherence and consistency of the strategic planning has been assessed and the financial flows associated with subsidies have been analysed. In terms of the procedure, the institutional environment, applicable legal provisions, information systems and the effectiveness and efficiency of these procedures have been analysed.

For this assessment, AIReF has focused on three main themes: (i) the first theme analyses strategic planning through the content of the SSP, assessing their link to and coherence with budgetary programming and sectoral planning; (ii) the second theme focuses on inter-administrative coordination mechanisms, and includes an analysis of sectoral conferences and other bilateral mechanisms, as well as the preparation of a money map for housing policy and business aid; (iii) the third theme analyses the stages of the subsidy procedure and the NSDB.

In order to prepare this study, AIReF hired Accenture as external technical assistance and also received scientific advice from Begoña Sesma, professor of Tax Law at the University of Oviedo. In addition, AIReF extends its gratitude to other administrations for their collaboration on this project. Firstly, it is important to highlight the work of the General Intervention Board of the State Administration (IGAE), which has provided us with access to the NSDB for exploitation. Secondly, we also have to thank all the administrations that have collaborated, providing us with information through different questionnaires: the under-secretaries of ministerial departments, Regions and city councils and larger councils that are subject to individual monitoring in the reports issued by AIReF<sup>1</sup>. Similarly, the information, knowledge and points of view transmitted in the various meetings held with other organisations, such as the IGAE, the Directorate General for Regional and Local Cooperation, the General Secretariat for Housing and the National Commission on Markets and Competition, have been particularly useful. Finally, in a more personal capacity, we would also like to thank all the speakers for participating and, generally, all the attendees for their timely and useful contributions to the debate in the two seminars held with representatives of the Central, Regional and Local Public Administrations during the development of the project. In any case, AIReF is solely responsible for the final content of the study.

Currently, it is not possible to determine the volume of total expenditure on public subsidies in Spain as there is no single source nor a single definition of a subsidy. Determining the volume of total expenditure on subsidies is constrained both by the lack of a single source to refer to and the absence of a single definition of subsidy. A subsidy can be defined from an economic perspective, according to the criteria of national accounts. Alternatively, it can be defined more narrowly from a legal perspective, according to what is established in the GSL. Finally, the definition used in the budgetary field is not that of either the economic or legal sphere; subsidies are granted in various articles and concepts in chapters IV and VII by current and capital transfers.

In national accounting terms, subsidies reached an amount of 12,000 million euros in 2017. On the other hand, AIReF has estimated the volume of subsidies through the NSDB, which would have reached 14,300 million euros in 2017.

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<sup>1</sup> Within the scope of these local corporations, the city councils of Barcelona, Bilbao, Gijón, Madrid, Malaga, Murcia, Palma de Mallorca, Tenerife, Valencia, Valladolid and Zaragoza and the councils of Barcelona, Seville and Valencia provided information.

## 1.2. Conclusions on findings and measures proposed by AIReF

Using the findings obtained from the analysis, based on an empirical analysis, AIReF proposes a set of actions aimed at improving the existing processes. More specifically, the main conclusions and action proposals for each of the three themes are:

### Theme 1 on strategic planning:

#### a) Main conclusions (findings)

- The value of the SSP as a strategic planning tool is almost negligible. In general, the SSP is a simple compilation of existing subsidy lines, with shortfalls and weaknesses both in their preparation procedure and in their content. The recent development of the SSP hinders its assessment as a strategic planning tool.
- There was a general delay in the preparation of the SSP, which, in the case of the Central State Administration (CSA), started in 2017.
- In addition, there is no regulation or detailed methodology for its preparation, which favours heterogeneity in both its structure and content as well as its validity and temporal scope. The structure, content and duration of the SSP are heterogeneous even within each level of administration. In addition, there are no clearly defined managers for the development of strategic planning, which results in a lack of leadership and responsibility for the design and implementation of the SSP as an instrument to serve public policies.
- A general absence of adequate *ex post* monitoring and evaluation systems is also observed. The definition of indicators observed in the SSP is clearly deficient. In most cases these are limited to budgetary execution or procedural indicators (number of calls for applications, applicants, beneficiaries, conferences, publications...), but do not include indicators that measure the achievement of targets, probably because these are also not clearly defined, but rather appear in very imprecise terms.

The CSA carried out an analysis of the connection between sectoral plans, budgetary programmes and the SSP, with the following results:

- Strategic subsidy planning is done according to the organic structure and not according to public policies, leading to dysfunctions. This method of planning, according to an organic approach, sometimes generates an overlap of targets and indicators.
- The SSP are not aligned with the respective sectoral plans that define public policies, insofar as they do not have internal coherence.
- There is a limited connection between the SSP and the State budgetary programmes. From the analysis, it can be concluded that there is a certain lack of coherence with the targets that is subsequently transferred to the indicators.
- In addition, the medium-term budgetary scenarios foreseen in the GSL are not developed by the CSA. This fact creates additional temporal inconsistency, between the current budgetary programmes and the SSP.
- The absence of a connection with the expenditure policies defined in the budgetary sphere, along with the lack of alignment of sectoral planning and strategic subsidy planning with the expenditure policies defined in the budgetary scope hinders the traceability of public policies between different planning levels (sectoral, strategic and budgetary) and also makes it difficult to see possible interference or overlaps between various policies.
- Strategic subsidy planning is not well coordinated with other relevant strategic plans from a general perspective.

b) Proposed measures:

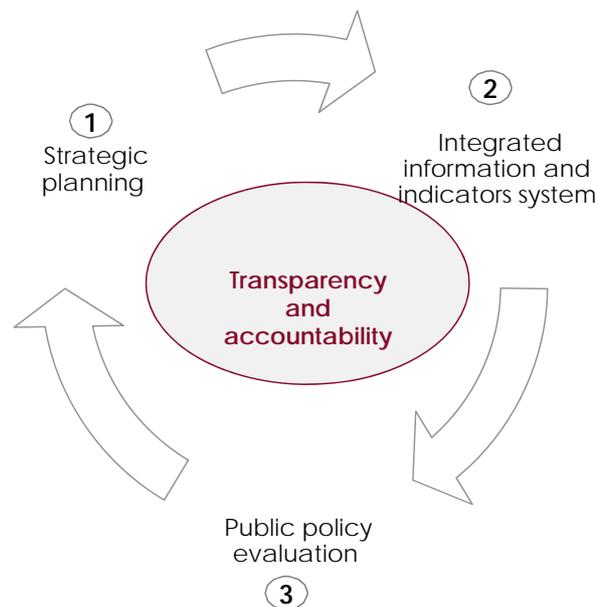
AIReF proposes a new system for the strategic planning, monitoring and assessment of public policies. It proposes an inclusive and consistent planning system for public policies, which goes beyond the scope of subsidies and encompasses all public sector activity, elevating strategic planning to the level of public policy.

This new planning system is implemented through four interconnected pillars, meaning that correctly implementing each of them requires the rest to also be implemented, fuelling a virtuous circle of improving the efficiency and effectiveness of the public sector:

- New strategic and budgetary planning framework linked to public policies. This framework fosters complete alignment and coherence between sectoral strategic plans, budgetary programmes and the organisation of subsidy lines reflected in operational plans.

- Creation of an integrated information and indicators system. The aim is to enable the correct development and continuous and transparent monitoring of public policies and to serve as a basis for evaluating results until, as a medium-term objective, a cost accounting model is created as a result.
- Active promotion of a culture of evaluating public policies. The evaluation of the impact of current strategic subsidy plans can not be separated from the need for a broader evaluation of all public policies and instruments that implement these.
- Increasing transparency, which favours accountability. The above proposals should be subject to and implemented under a model that assigns responsibilities based on the results and impact of public policies. Ensuring transparency in the planning, execution, monitoring and evaluation of policies is essential for this.

### DIAGRAM OF THE CHAIN



#### Theme 2 of inter-administrative coordination mechanisms:

##### a) Main conclusions (findings):

- There is a conflict regarding responsibility between the different levels of administration, especially between the State and the Regions. The Constitutional Court has repeatedly indicated that

the State's expenditure capacity or legal authority does not justify the establishment of subsidy lines if they affect the Regions' own competences. However, sometimes a basic state regulation can be justified. The State can only assume responsibility for the management of subsidies exceptionally in very special circumstances.

- The 2015 Law on the Legal Framework of the Public Sector represented an important improvement in the regulation of inter-administrative relations, although this is still insufficient. This Law especially promoted organic cooperation techniques. The Conference of Presidents, sectoral conferences, bilateral cooperation commissions and territorial coordination commissions are in this group.
- The most commonly used cooperation instruments are the collaboration agreements concluded by the CSA and the Regions, sometimes used instead of multilateral cooperation. In addition to the collaboration agreements the contract-programme has also been widely used for cooperation between the CSA and the Regions.
- Coordination mechanisms, mainly sectoral conferences, do not fulfil the coordinating role assigned to them by regulations. Firstly, there is little participation in strategic planning and in the design of public policies and SSP. Secondly, they do not favour horizontal coordination between Regions nor the participation of local corporations. In addition, we must note the absence of a technical component.
- There are shortcomings in the functioning of these mechanisms. A significant number of sectoral conferences are completely inactive, and some active conferences only meet once or twice a year.
- The performance is unequal between different sectoral areas and the institutional cooperation framework does not have detailed and precise operational procedures available.
- The initiative is the responsibility of the CSA, which has a dominant role with respect to the territorial administrations. The CSA has a leading role in the sectoral conference: the minister responsible for the matter is its chairman, who is in charge of convening the meetings and setting the agenda. The territorial administration plays a secondary role in defining the topics to be discussed and, more generally, in the conference's progression. This greater influence of the CSA does not boost the role of the sectoral conference as a forum for horizontal coordination between Regions. On the other hand, the participation of local corporations is very limited.

- In those areas in which funds are distributed, most of the time the distribution lacks objective, public and reviewable allocation criteria, and on many occasions the scope of action is even fragmented in favour of bilateral cooperation.

More specifically, the sectoral conference for Housing, Urban Planning and Land was analysed, producing the following findings:

- The State Housing Plan is the result of a participatory process in which the Regions intervene bilaterally without being submitted to a joint discussion in the sectoral conference.
- The criteria for the annual territorial distribution of funds are unknown and have remained fixed since 1992, despite differing evolution by Region in terms of population or other variables related to this public policy.
- There is a lack of debate on other aspects of housing policy, beyond the distribution of funds.

In addition, business promotion with subsidies has been analysed, although no specific sectoral conference has been assigned responsibility for this field. The main findings are:

- There is no coordination between the different agents that grant this type of aid, some entities do not know what others do within the same line.
- According to the NSDB, businesses received 2,620 million euros in subsidies in 2017. The information provided by the NSDB shows that 47% of subsidies to businesses are concentrated on limited companies, 34% of which corresponds to corporations.
- The schedule of calls for applications increases over the year. A higher concentration of calls for applications is detected in October and December, which represents 41% of those made throughout the year. 32% of funding applies to December alone.

b) Proposed measures:

In order to correct these deficiencies and improve coordination mechanisms, AIReF proposes:

- Strengthening the sectoral conference system as a network of specialised bodies that share and evaluate initiatives. This means assigning no more than

one public policy to each sectoral conference and integrating local corporations into those that discuss policies that they are responsible for. Furthermore, it is proposed that a model of shared and participatory governance be established, with a common agenda and work plan, to publicise the agreements and results of their monitoring.

- This more participatory and specialised model requires the creation of a technical secretariat for each sectoral conference, made up of state and regional officials, to serve as a regular information channel. These new structures would make it possible to include the perspective of different levels of administration, provide technical information to the sectoral conference as a basis for discussions and have the possibility of involving external experts. Another of its functions would be to clearly define money maps in the scope of each sectoral conference that would coincide with corresponding public policy.
- Thirdly and finally, AIReF proposes the definition of fund distribution criteria according to empirically quantifiable indicators that can be reviewed according to the results. For this, it is recommended that: a technical approach to these indicators is taken, carried out by the technical secretariat; results and impact criteria in the evaluation of funds are established and distribution according to objective criteria is automated, which would also increase their transparency.

### **Theme 3 of procedural analysis:**

#### a) Main conclusions (findings):

- The regulatory framework is outdated. The GSL does not align with the latest reforms to contract and tax regulations.
- The GSL insufficiently regulates measures to financially support development other than subsidies, such as repayable loans, guarantees, share capital and other public aid.
- In addition, there are entities and individuals linked to the public sector that grant subsidies, but that are not included in the GSL.
- There is a lack of development of the principles that govern the establishment and granting of subsidies. Article 8 of the GSL establishes the general principles governing the establishment of public subsidies but does not implement them.
- The regulation of nominative and direct subsidies is insufficient. There is some abuse in their use and a lack of transparency and insufficient

regulation of the obligations assumed by the beneficiaries of these subsidies. According to data from the NSDB, direct and nominative subsidies represent one third of the total amount of recorded subsidies.

- Subsidy procedures (granting, justification, payment and verification) have an excessive administrative burden for both management centres and the beneficiaries.
- There are certain deficiencies in control, repayment and sanctioning procedures. There are certain overlaps in the verification and control procedures, formal limitations on repayment and a general lack of application of sanctioning proceedings.
- The NSDB is a very valuable source of information, but it has weaknesses. The information it contains is insufficient and lacks uniformity, creating difficulties in analysis arising from the format of information disclosure, as well as the unreliability of economic data.

b) Proposed measures:

The proposals are aimed at improving both the procedures that articulate the subsidies and their information systems.

The proposed measures for procedure improvement focus on reviewing the regulatory framework for subsidies to broaden and clarify their scope of application and to consolidate and improve the efficiency of granting, financial control, repayment and sanctioning procedures for public subsidies.

Some of these measures could involve the revision and updating of the GSL and the General Subsidies Regulation (GSR). The basic pillars of this reform would be:

- Extension of its target scope to encompass other public aid (loans, guarantees, share capital...), without prejudice to its targeted regulation.
- Differentiation of the systems for social assistance or aid.
- Improvement and clarification of the subjective scope.
- Adaptation of the GSL to the local area.
- Development of the content and scope of the principles that govern the establishment and granting of subsidies and public aid.

- Improvement of the regulation of direct and nominative subsidies.
- Administrative simplification of granting, justification, payment and verification procedures.
- Reform of the control, repayment and sanctioning procedures.

Regarding information systems, the measures proposed in the NSDB are made with the understanding that this should be the subject of a new boost so that it includes all information related to each of the stages of the subsidy process, guaranteeing its integrity through relevant regulatory changes. In this sense, the IGAE, as the body in charge of the NSDB, must broaden the services offered in relation to the exploitation of its information as a way to promote collaboration with other administrations. In addition, as part of the integrated information and indicator system referred to in Theme 1, the analytical capacity of the data contained in the NSDB must be guaranteed. For this, the integrity and traceability of the data must be strengthened, thus reinforcing the transparency of public policies on subsidies. To implement these proposals, it is necessary to develop the technical capabilities that allow for the analytical exploitation of the NSDB.

In conclusion, it should be noted that AIReF's proposals in relation to this project are based on a global and inclusive vision of the problems identified and are, therefore, interrelated with each other. In addition, these are ambitious proposals by definition, whose implementation is not exempt from difficulties. While some proposals are immediately applicable, others require a long process involving regulatory, institutional and even cultural changes. For this reason, it is particularly important that administrations draw up a clearly defined roadmap for its implementation that has the backing of a strong and broad political commitment. The magnitude of the task should not be an obstacle to tackling these reforms, but rather an incentive to start as soon as possible with the simplest measures, although keeping the final objective of the reforms in mind.



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