

# Chapter 3

## Two Approaches on Local Governments' Financial Sustainability: Law vs. Practice in Catalan Municipalities

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### **ABSTRACT**

*The scope of this chapter is to examine the concept of financial sustainability in Catalan municipalities through two different perspectives: The first refers to the perspective of law as it is recorded in the relevant legislation. The second refers to the point of view of mayors and municipality executives who were called to implement the legislation in practice. For the purposes of the study, the relevant Spanish legal documents are analyzed. The reality in practice is captured through the analysis of official documents and semi-structured interviews and informal discussions with mayors and executives of Catalan municipalities. A gap appears to exist between existing legislation and the actual needs of municipalities, which ask for more flexibility and independence to act since the targets set by law are successfully met.*

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## **INTRODUCTION**

The recent global economic crisis had a major impact on the European Union (EU) member-states. As a response to the impact, austerity policies were imposed on many member-states, and especially the weaker ones, as for instance Greece, Italy, Spain, and Portugal (Magalhães, 2014). The crisis affected both the private and the public sector. Especially, the impact on the public sector was fundamental, and a lot of things had to change targeting to the development of defense mechanisms for the public sector entities (Di Mascio & Natalini, 2015). In the aftermath of the crisis the safeguarding of financial sustainability of local governments became a focal point for EU member-states (Rodríguez Bolívar, Galera, Muñoz, & Subires, 2014a).

In this context the EU developed in 2010-2011 directives known as the “Six Pack” concerning the strengthening of stability and budgetary surveillance, and later in 2013 the “Two Pack” with focus on financial stability and the “Fiscal Compact” followed. These regulation-packages had to be followed by the EU member-states, which correspondingly developed relevant national laws. It is argued that these EU-driven reforms changed the relation between the EU and the member-states as the rules became harder and were accompanied by sanctions, both in a preventive and corrective spirit (Schlosser, 2015). In this realm the Spanish government developed in 2012 the Organic Law 2/2012 (OL 2/2012) providing guidelines on budgetary stability and financial sustainability. The Catalan autonomous government was among the first to immediately develop a specific relevant law (Law 6/2012) applicable to the region (Almendral, 2013). As regards local administration, there were several legislative adaptations of OL 2/2012, as for instance Law 27/2013 on rationalization and sustainability for local administration approved in December 2013. Recently, the Catalan federation of municipalities (Federacio de Municipis de Catalunya [FMC], 2017) asked for the review and relaxation of the Law’s restrictive measures for the municipalities to enjoy more flexibility and independence in their decision-making and investment policies, since the targets set by legislation were sufficiently reached.

Scope of this chapter is to examine the concept of financial sustainability in Catalan municipalities through two different perspectives: the first refers to the perspective of law as it appears through the specific official guidelines provided by the relevant legislation (e.g. OL 2/2012, Law 27/2013). The second refers to the point of view of those who had to implement the law in practice; i.e. mayors and municipalities executives that are responsible for monitoring and ensuring financial sustainability. The chapter attempts to test the legal framework in contrast to their point of view, providing thus evidence on how government laws handle and how practitioners understand aspects of municipalities’ financial sustainability.

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