

# Prudent approach to cash flow pays off

## Sant Cugat

The city has become a global model for public administration, says Mark Mulligan

In these times of austerity, low or negative economic growth and tight credit, Catalonia's 947 local governments – or *ajuntaments* – are in a bind.

Deprived of the construction and property taxes that underpinned their finances during a decade of growth, many are struggling these days to pay their bills.

Delays in remittance to suppliers of more than a year are common in some parts, while many local governments find it impossible to comply with the so-called "60-day payment rule".

In Sant Cugat del Vallès, a dormitory city of 84,000 people in the industrial valleys north-west of central Barcelona, the local government has, in the past seven

years, developed a more business-like approach to municipal administration. As part of this, it last year announced a commitment to paying all suppliers within 30 days.

What at first was seen as a media stunt, in keeping with the city's penchant for self-promotion, is today a fact of life: cost-based budgeting combined with healthy bank credit lines has allowed the government to keep its promise.

Processing and approving invoices is generally done within 15 days; once approved, payment takes another 15. Elsewhere, in many cases, local councils drag out the approvals process to delay payment.

Apart from more streamlined bureaucracy – which includes contracting out such functions as sport facility management, street cleaning, and rubbish collection – the city council has something more fundamental in its favour: prudent cash flow management.

As with most local

authorities in Spain, Sant Cugat had come to rely heavily on taxes and licences related to construction during the country's long residential housing boom, which wound down in 2007. Of total revenues of €70m in 2008, about €18m came from the construction sector, says Jordi Joly i Lena, deputy mayor and head of economy.

"Like everyone else, we didn't see the crisis coming, but we knew that there would come a moment when there was no more land in the city for residential development," he says.

"The income from construction was a variable which we did not use for current expenditure. We used that money to finance investment, not to pay suppliers.

"So when the crisis hit, we were able to pay our suppliers at 30 days."

The objective of the policy, apart from promoting a positive image, is to give companies – particularly

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small, local concerns – a fighting chance to ride out the recession.

This commitment to efficiency last year won the city hall a European Public Sector Award (EPSA), for "Leadership and Management for Change".

The city's policies have also helped develop Sant Cugat's business park, just to the east of the city. Called Sant Joan, the park was one of Barcelona's early experiments in decentralisation and is now one of its best-known business estates.

It is home to R&D, logistics and administration centres for multinationals such as Hewlett-Packard and Roche and is also the site of Creápolis, where students from Esade business school mix with established businesses, government agencies and small start-ups in an interconnected campus and office complex.

Sant Joan had its share of critics at the time of conception but was backed wholeheartedly by Sant Cugat council.

Although in its early days it failed to draw the sort of high-tech investments it had promised, today it is an

important part of what is promoted as the "Catalonia Innovation Triangle" (CIT).

As part of the effort to enforce its image as the centre of an innovation cluster, Sant Cugat in 2007 ran as a candidate to be the site of the European Institute of Innovation and Technology.

Despite intensive lobbying in favour of Sant Cugat, Budapest was chosen. However, according to Mr Joly i Lena, the candidacy helped the city focus on its goals.

"Although we didn't win, it was important for us to be part of the process."

"We want to create a CIT brand," he says, "to the point where the Hewlett-Packards and Esades of this world use the CIT logo".

Sant Cugat itself, meanwhile, has become a global model for public administration, according to a report by the EPSA judging committee.

"Although the city council has reduced the public debt significantly," it says, "the administration has maintained its ability to strategically invest to improve the quality of the city... and build strategic assets for the knowledge society."