Conselho das Finanças Públicas
Portuguese Public Finance Council

24th APDR Congress
July 6-7 2017
Covilhã, Portugal

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Lessons for local fiscal frameworks from an economic and institutional inquire into the last 30 years of Portuguese experience

Objectives and recipients

From the history of local finances in Portugal since 1987

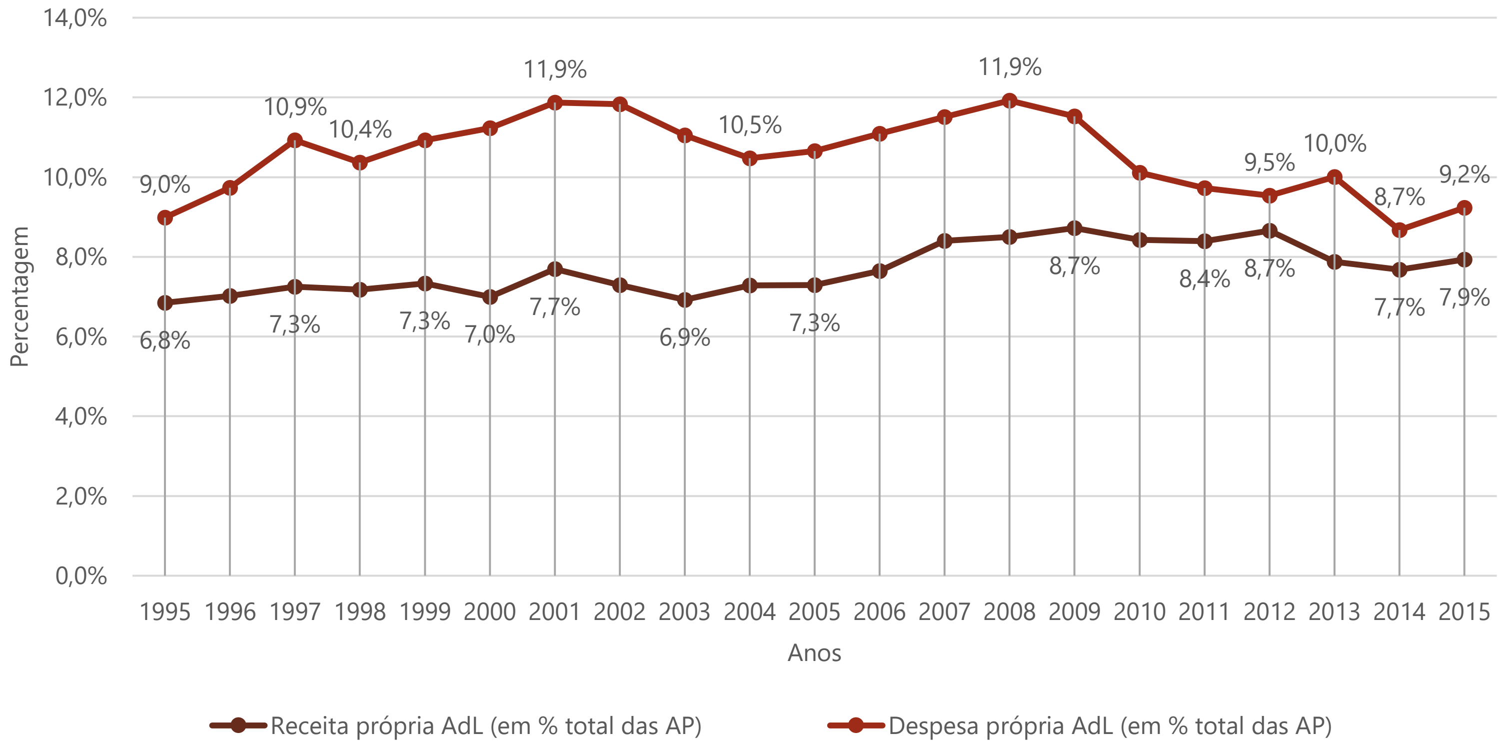
- Reflect on positive aspects and areas to improve regarding the institutional framework of local finances

- Identify situations which are not usually given much attention but with significant implications in the public finance sustainability and in the quality of public policies

- Informational, education and for reflection goals for citizens in general, journalists, academia, public administration staff, local and national politicians/law makers

Budgetary and financial developments in in the long term. Decentralization.

Graph 1: Decentralization ratios for revenue and expenditure, 1995–2015

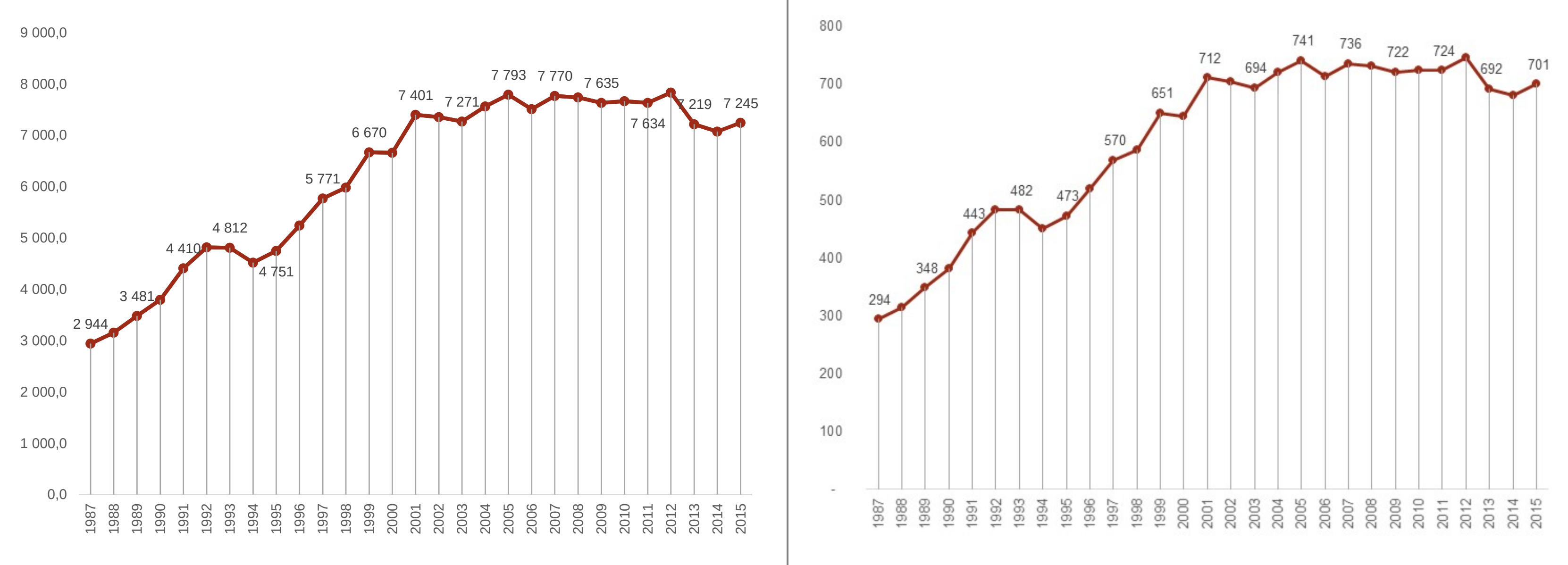


Sources: Statistics Portugal (INE) and CFP calculations. | Notes: Local government revenue and expenditure in national economic accounts as a % of general government revenue and expenditure. Local government own revenues (to the left in the legend) excludes transfers and interest received from other general government subsectors while local government own expenditures (to the right in the legend) exclude transfers and interest paid to other general government subsectors.

Budgetary and financial developments in in the long term. Revenue.

Graph 2: Effective revenue at constant prices, 1987 to 2015 (base year 2015)

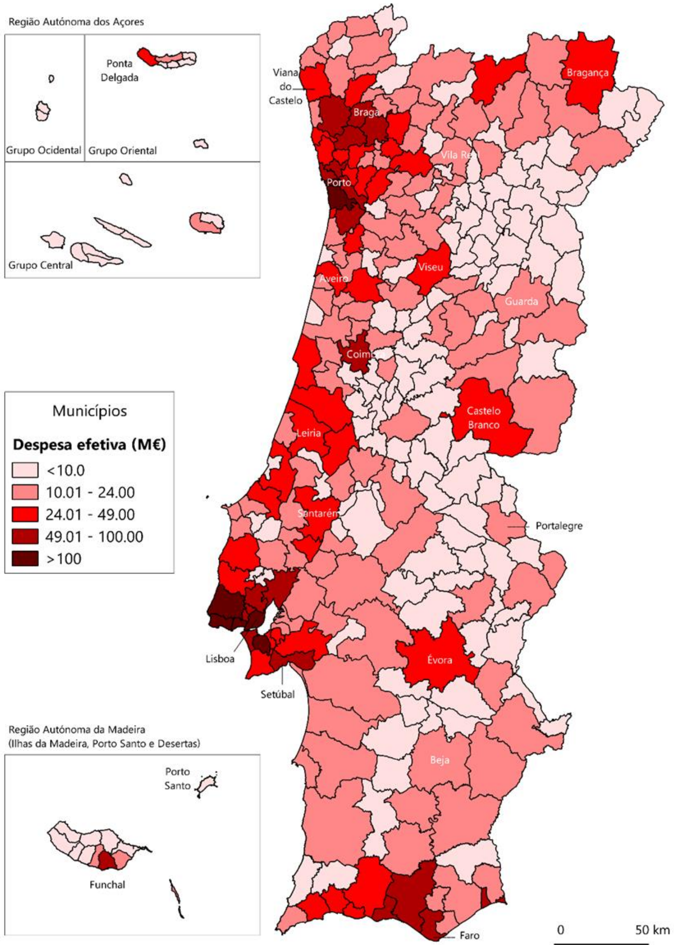
Effective revenue (M€) | **Per capita** (€/inhab.)



Sources: DGAL (General Directorate for Local Authorities), BdP (Bank of Portugal) and CFP calculations. | Notes: Cash basis for municipalities. The series of the GDP deflator is calculated on the basis of the BdP source to convert the nominal series of revenue in constant prices for the year 2015.

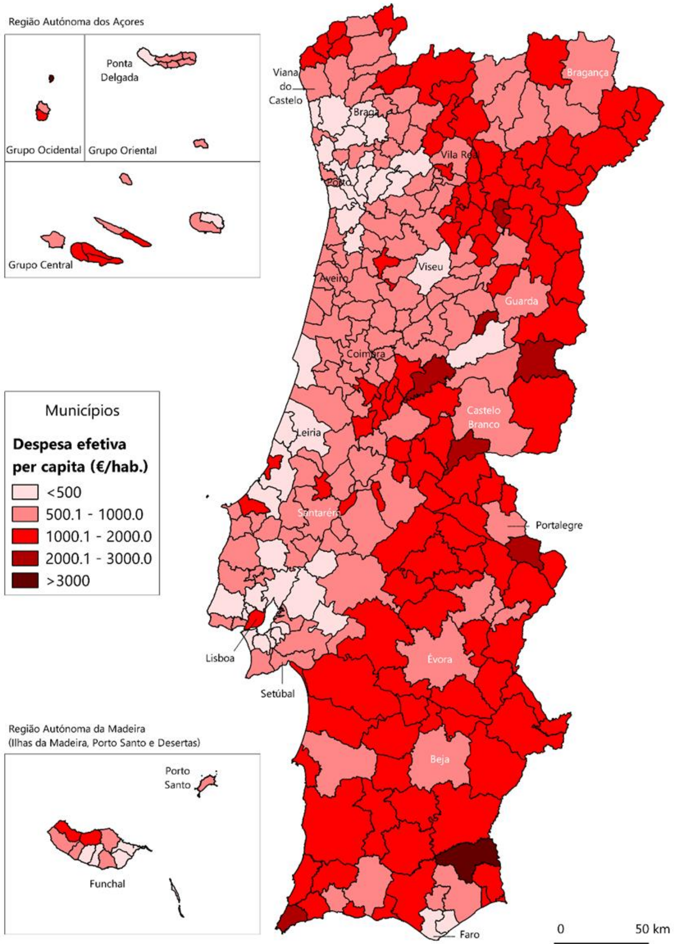
Budgetary and financial developments in in the long term. Expenditure.

Map 1: Geographical distribution of effective expenditure, 2015



Sources: cartographical base in DGT (2015) and quantitative data in SIIAL/DGAL; map treatment by the CFP.

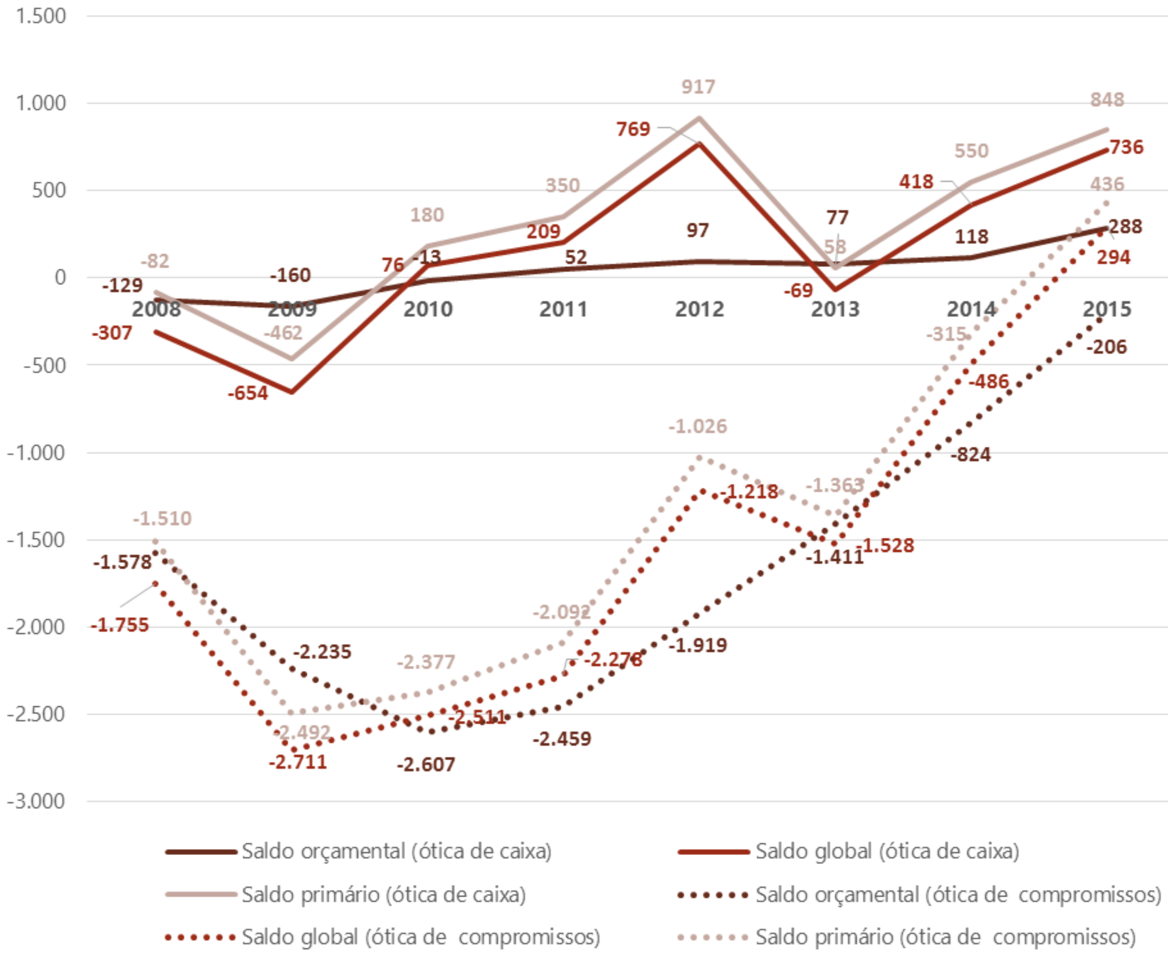
Map 2: Geographical distribution of *per capita* effective expenditure, 2015



Sources: cartographical base in DGT (2015) and quantitative data in SIIAL/DGAL; map treatment by the CFP.

Budgetary and financial developments in in the long term. Balances.

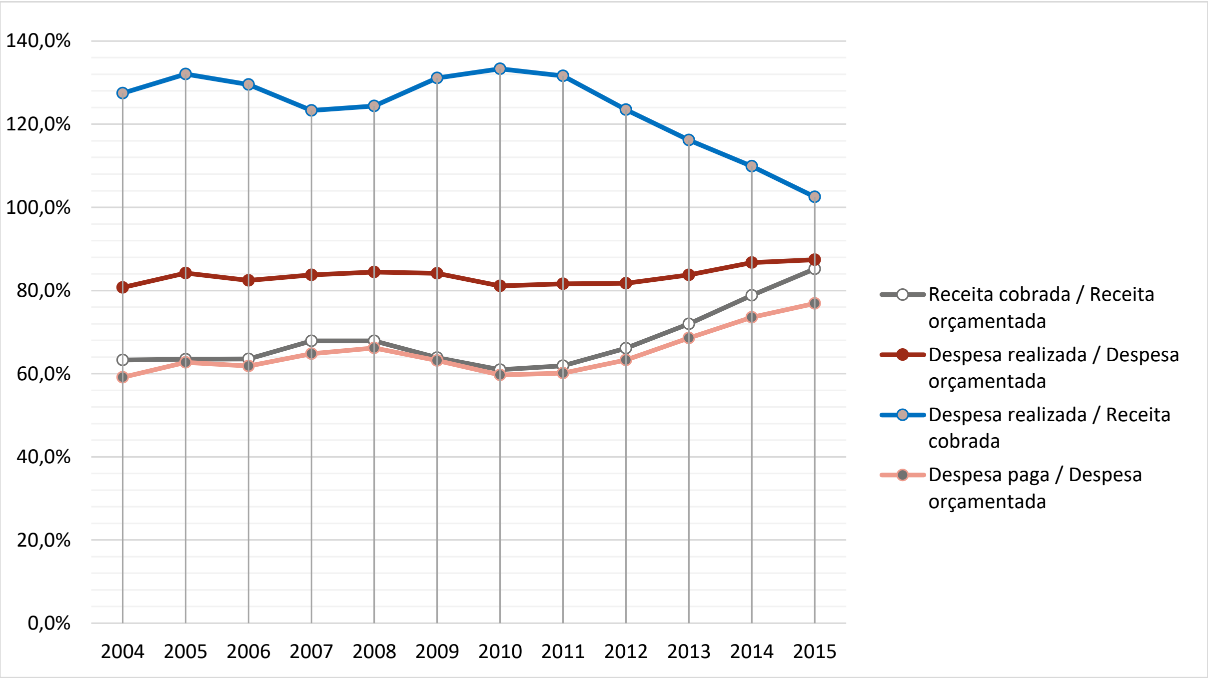
Graph 3: Outstanding balances of Local Administration, excluding previous year balance and refunds not deducted in payments (M€, 2008–2015)



Sources: Carvalho *et al.* (2016). CFP calculations. | Notes: 1) Full lines correspond to cash basis data while dotted lines considers a commitments perspective. 2) The balances series refer, respectively from left to right in the legend, to the budgetary balance, overall balance and primary balance.

Budgetary and financial developments in in the long term. Balloon budgeting.

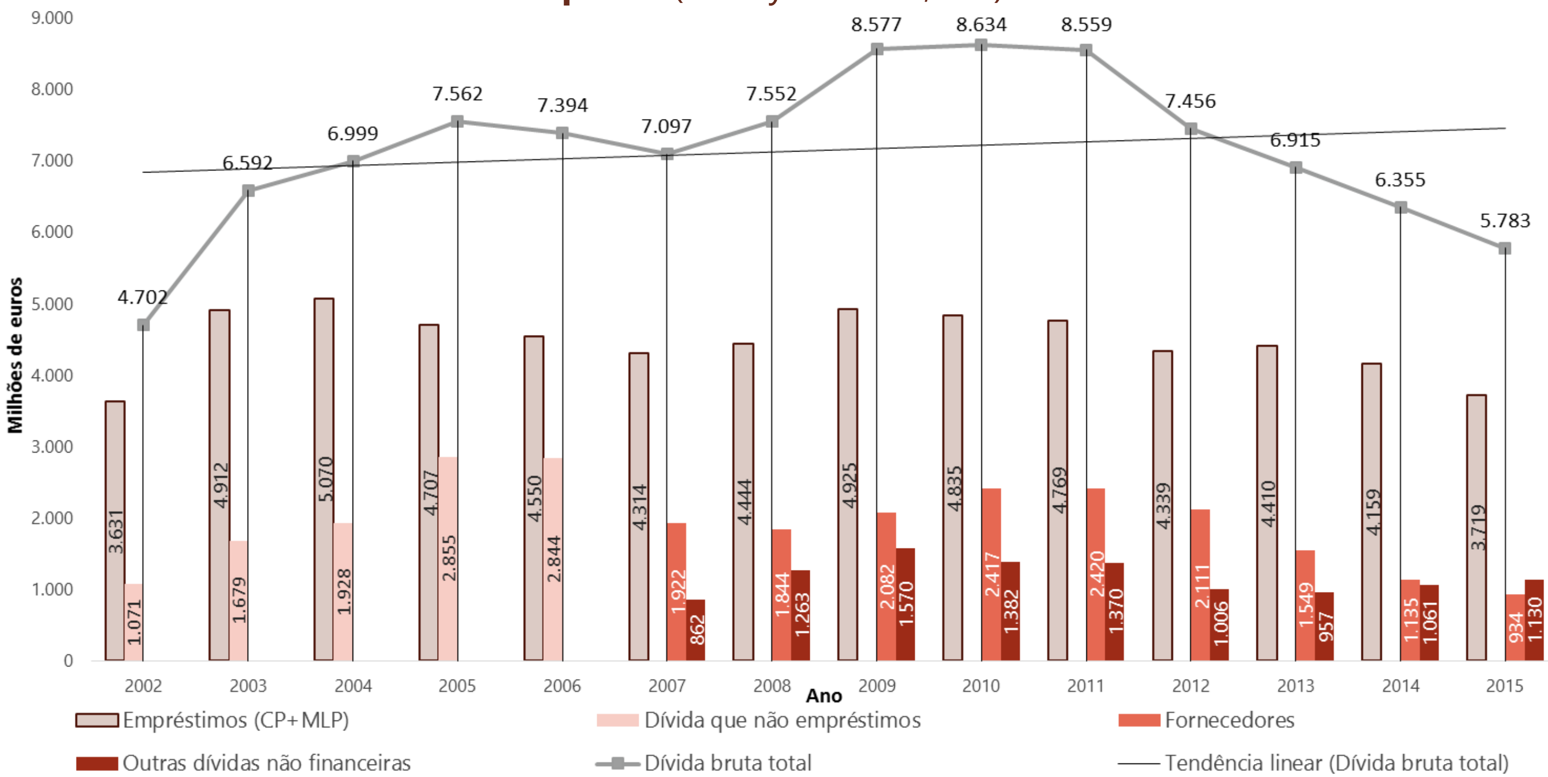
Graph 4: Financial Indicators: revenue and expenditure totals, 2004–2015



Sources: Financial Yearbook of Portuguese Municipalities (several years) and CFP calculations. | Notes: In descending order in the legend the ratios are, respectively: collected revenue / budgeted revenue; committed expenditure/budgeted expenditure; committed expenditure/ collected revenue; paid expenditure/ budgeted expenditure.

Budgetary and financial developments in in the long and in the short term. Debt.

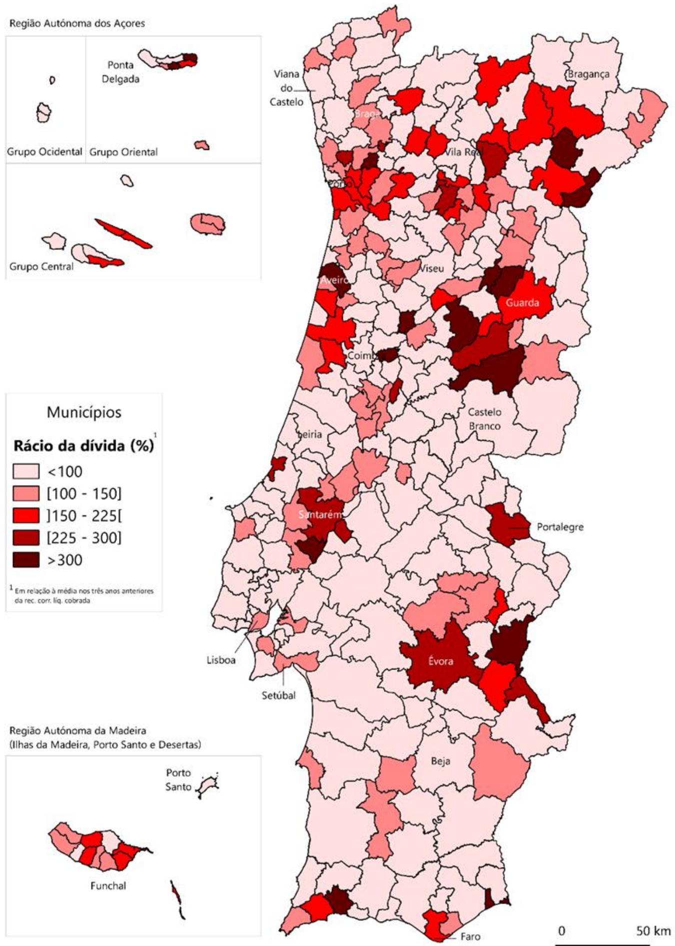
Graph 5: Municipal gross debt and breakdown by type of creditor, 2002 to 2015, constant prices (base year 2015, M€)



Sources: Bank of Portugal – BdP (GDP at current and constant prices), DGAL – General Directorate for Local Authorities (municipal balance sheets in Local Administration Integrated Information System – SIIAL) and final accounts documents of the municipalities of Lisbon (2007-2012), Vila do Bispo e Seia (2013), Sintra e Vila Real de Santo António (2014). CFP calculations.

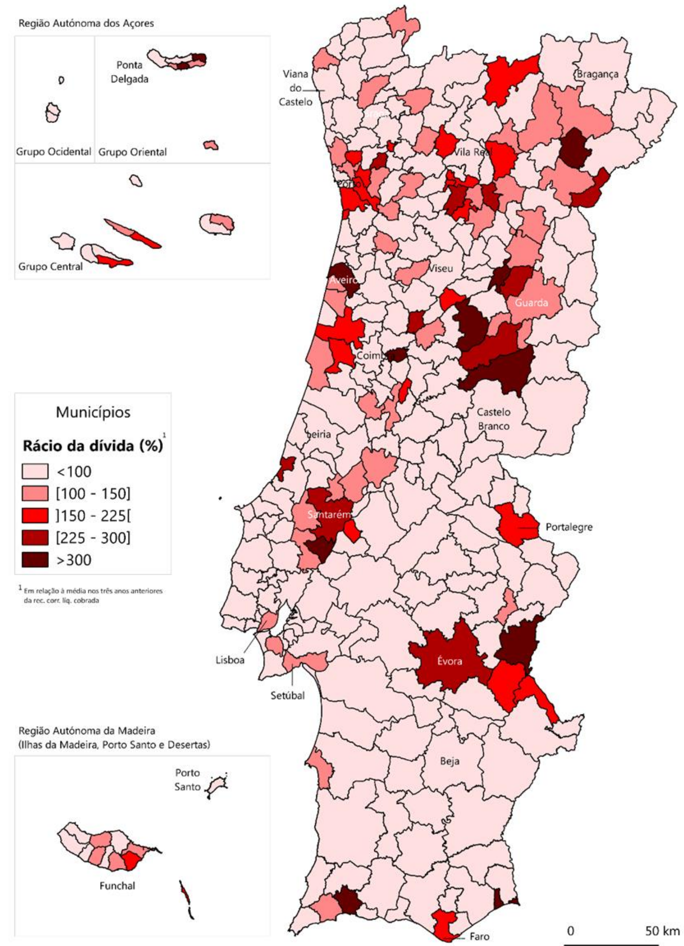
Budgetary and financial developments in in the in the short term. Total debt rule.

Map 3: Geographical distribution of the debt rule ratio, 2014



Sources: cartographical base in DGT (2015) and quantitative data in SIIAL/DGAL; map treatment by the CFP.

Map 4: Geographical distribution of the debt rule ratio, 2015



Sources: cartographical base in DGT (2015) and quantitative data in SIIAL/DGAL; map treatment by the CFP.

History of local finances over the last 30 years

Positive aspects

- Legal competences are within what economic theory prescribes (*resource allocation*)
- Local revenue generically observes normative principles
- Local accounting system (accrual) | POCAL basis for IPSAS based SNC-AP
- Rules based system and not upon on discretionary measures. But…

Weaknesses

- ≠ committed expenditure and collected revenue
- Balloon budgeting
- Automatic correction(?) of financial imbalances
- **Fiscal rules for local government:**
  - **Legal instability and moral hazard**
  - **Complexity and slowness in monitoring**

Areas for reflection

Revenues

- Reduce exposure to real estate
- Financing model for future competences
- Redistribution through local fares
- (Really not the) End of the non-recurrent real estate municipal tax (IMT)
- Local corporate tax differentiation?
- **Recurrent municipal tax on real estate (IMI) design**
  - **One instrument, several goals**

Competences and expenditures

- Decentralization and municipal cooperation
- Rethinking uniformity on the organization and in the delivery of services

Areas for reflection

Fiscal rules

- **Rules should be more preventive than corrective** and encourage financially sound behaviours
- Reduce fragmentation and inconsistency
- Given the weaknesses pointed out can we speak of fiscal rules based system for local finances?
- **Computation for the debt and balance rules**

Monitoring and information systems

- Consolidation of accounts
- Relationship between revenue collected and commitments made
- Reliability for the revenue settlement records?
- Evolution of future commitments
- Surveillance of (bad) budgeting behaviors

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THANK YOU FOR YOUR ATTENTION!