

Executive Summary



Local Government Budget Outturn in the 1st semester of 2018

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EXECUTIVE SUMMARY

The Portuguese Public Finance Council once again publishes its biannual analysis of Local Government budget outturn, in cash flow terms, a process that began in April of this year. The aim of this new series of publications is to bring greater transparency to Local Government accounts, as is the case with General Government as a whole. For this reason this report retains a first chapter on the changes in the fiscal rules applying to Local Government as a consequence of the State Budget for 2018 (SB/2018). Similarly, this report updates the figures for 2017, since in the meantime the municipalities have submitted their accounts via the Local Authorities Integrated Information System (SIIAL, in Portuguese).

According to the preliminary budget outturn in public accounts terms, the overall balance for municipalities as a whole in the first half of 2018 was 388 M€ which was a drop of 53 M€ compared to the same period in 2017. This balance is less than the 948 M€ forecast by the Ministry of Finance (MF) in the State Budget for 2018 for Local Government as a whole. If we look at the aggregate figures for municipal budgets we find total revenue rose less than expected while expenditure fell short of the approved budget allocations.

Tax revenue experienced lower growth than forecast in the State Budget for 2018 since, whilst IMT performed favourably and recorded a significant rise, IMI revenue fell. It is noted that Municipal Budgets forecast a decline in tax revenue, which contrasts with the observed figures. That expected change stems from the rules on forecasting municipal tax revenues which set a maximum limit of the average of the sums collected in the 24 months prior to the drawing up of the budget. Thus periods of lower tax revenues were taken into consideration, with greater growth being concentrated in 2017. It should also be noted that the balance is influenced by specific circumstances, such as the base effect stemming from the transfer, in 2017, to the municipalities of arrears interest on previous year's settlements of both those municipal taxes (on the revenue side), and by the impact of the refunding of the civil protection charge by the municipality of Lisbon (on the expenditure side).

Total municipal debt considered for the purposes of the legal limit fell up to June 2018: excluding non-budgetary debts and the legal exceptions, there was a decrease of 234 M€ in the first half of 2018. On the basis of this indicator, 25 of the 308 municipalities were above their total debt limit on 30 June (compared to 28 municipalities at the end of 2017). It is noted that the legal limit only applies to the annual figures, and consequently the compliance with the rule can be assessed at the year-end, even though the legislation calls for quarterly monitoring of developments.

In the first half of 2018 expenditure payable by municipalities improved compared to the same period the previous year. Non-financial liabilities fell by 94.1 M€, while accounts payable were down 67.5 M€, and there was a 13.6 M€ decrease in arrears. Despite this combined favourable performance, there were cases where the sums payable increased with four municipalities experiencing increase of over 1 M€ in arrears since the start of the year.

OVERVIEW

When it published [Report no. 03/2018](#) in April, the CFP started on the biannual publication of Local Government budget outturn, in cash flow terms, which also includes analysis covering the municipal debt limit and expenditure payable by municipalities. This report examines the budget outturn in the first half of 2018. The references made in this document are merely of an indicative nature. Responsibility for checking compliance with each of the current rules is set out in Table 9 of [Report no. 03/2018](#).

Under the Budgetary Framework Law (BFL), enacted in Law n° 151/2015 of 11 September, the Portuguese Public Finance Council's (CFP) mission includes, among other matters, commenting on compliance with the "autonomous regions and local authorities indebtedness rules laid down in the respective finance laws". Likewise, the CFP's Statutes, approved by Law n° 54/2011 of 19 October, include in the Council's duties the assessment of compliance with the established budget rules and of the financial position of the autonomous regions and local authorities (paragraphs b) and e) of article 6 of its Statutes). Nonetheless, none of the subnational finance laws defines the CFP's powers in terms of exercising the role laid down in the BFL and its Statutes. In regard to Local Government (LG), the rules governing the financing of local authorities and intermunicipal bodies, approved by Law n° 73/2013 of 3 September (Local Finance Law – LFL), only mention the CFP in terms of its participation as an observer in the Financial Coordination Council (FCC). The FCC, which is charged with promoting the exchange of information between Central Government and Local Government, should meet twice a year, by 15 March and by 15 September, prior to the publishing of the Stability Program and the State Budget Bill, respectively. However, this body has never formally met, despite a number of preparatory meetings being held. The latest change to the LFL (Law n° 51/2018 of 16 August) retains those provisions, whilst amending the FCC coordination and the manner in which information is supplied to the participants.

Furthermore, it is difficult to acquire reliable and timely information for all matters covered by the applicable rules. Account must also be taken of the successive amendments to the LFL by way of State Budget Laws that impact on rule calculations. Such practical difficulties are reflected in the way the budget rules are applied and monitored at the subnational finance level.

The report is divided into four chapters. The first chapter analyses the municipalities' budget outturn in public accounts terms (cash flow terms). The second chapter looks at liabilities accounts payable, focusing on arrears. The third chapter sets out the most significant changes impacting on the budget rules applying to Local Government in 2018, based on the information provided in the first report in this series. The fourth and final chapter undertakes an indicative assessment of compliance with the municipal debt limits, taking into consideration the current rules.

The drawing up of this report benefitted from additional information and clarifications provided by the Directorate-General of Local Authorities (DGAL) and the Municipal Support Fund (FAM), to whom the CFP extends its gratitude.