



**Conselho das
Finanças
Públicas**

**LOCAL
GOVERNMENT
BUDGET
OUTTURN IN 2022
EXECUTIVE
SUMMARY**

October 2023

Report NO.

09/2023

EXECUTIVE SUMMARY

The assessment of the results of the Local Government in 2022 is limited by the fact that the CFP does not have complete and validated accounts for all Portuguese municipalities. This situation continues to be motivated by the various difficulties and delays both in the implementation of the (new accounting standard) SNC-AP in Local Government, and in the development of the DGAL information collection system. In the face of these constraints, this Report is based on public budget accounting figures of 300 of the 308 Portuguese municipalities (98.7% of the effective expenditure of 2019). For this universe, the Local Government will have presented in 2022 a budget surplus of 361 million €, higher than estimated in the State Budget 2022 Report (which showed a surplus of 283 million €). Compared with the deficit expected for 2021, there is an improvement, based on municipal revenue which has increased more than expenditure.

In 2022 there was a recovery of the budgetary situation of the municipalities, based on the favourable behaviour of own revenues. However, this recovery was strongly associated with the dynamism of the real estate market and tourism activity, which nevertheless constitutes a downside risk for the future in the event of a slowdown in real estate transactions and tourism demand.

Thus, in that year, the effective revenue of the municipalities registered a growth of 10.7%, above the forecast in the SB/2022 for the local subsector (6.8%). Own revenue (i.e. excluding transfers) developed much more favourably than foreseen in that budget programming document. Nearly two-thirds of this revenue growth was due to tax revenue, which benefited mainly from a much higher increase in the Real-estate property transaction tax IMT (26.2%) than predicted in the State Budget (SB) Report (1.7%), as well as from the recovery of the municipal surcharge on CIT. In the case of non-tax own revenue, sales of goods and services and revenue from taxes increased prominently. The tourist tax in 2022 more than tripled the amount collected in 2021. Transfers received by municipalities also grew, but at a lower pace than anticipated. While current transfers increased due to the funds received to finance decentralisation of competences, capital transfers, in particular from European funds for co-financing municipal investment, have decreased, contrary to the expected increase.

The favourable evolution of revenue allowed the accommodation of a 6.6% growth in municipal expenditure in 2022. This was driven by primary current expenditure whereas capital expenditure, notably investment decreased. The growth in primary current expenditure

resulted from an increase in the acquisition of goods and services (14%) and staff compensation (10.8%). The first case reflected the effect of rising inflation in 2022, having been much higher than anticipated in the SB/2022 Report. In the second case, staff expenditure was influenced by the transfer of workers under the decentralisation of competences process. In 2022, the number of workers working in the municipalities increased by almost 20,000, mostly in the area of education. However, the available information is insufficient to determine the increase in expenditure by the municipalities as a result of this decentralization process. Unlike revenue, the economic classification of expenditure does not make it possible to identify specifically the expenditure financed by transfers under the Decentralisation Financing Fund (DFF). This information is a necessary, if not sufficient, condition for greater transparency of the decentralisation process, particularly regarding its economic and financial dimensions.

As for investment, namely that supported by capital transfers, in particular European funds, data indicates a decrease of almost 5% in 2022, contrary to what was initially anticipated, both in the SB/2022 Report and by the municipalities in their budgets.

Despite the information limitations, there is evidence that municipalities' unpaid expenditure will have decreased in 2022, either at the level of non-financial liabilities or accounts payable. However, available data indicates a slight increase in arrears, a situation, however, restricted to a small number of municipalities. This development is paralleled by the evolution of the average payment period, which is generally favourable, in spite of some individual situations where there has been a deterioration of this indicator.

Total debt developments were generally favourable, notwithstanding some municipalities showed a worsening of their financial situation, namely smaller municipalities, with lower own financial resources, a higher proportion of rigid expenses and a higher dependency on transfers from the SB. The total municipal debt of 300 of the 308 municipalities – financial and non-financial debt – relevant for the assessment of the legal limit was reduced from 3.8 to 3.6 billion €. Based on this indicator alone, at least 14 of the 300 municipalities were above the total debt limit as of December 31, 2022, i.e., three fewer than at the end of 2021. This evolution reflects the decrease in debt observed in 211 municipalities (reduction of 395 million €) that more than compensated for the increase reported by the remaining 89 municipalities (177 million €).

Data on municipal debt shows positive signals, reducing the risk associated with the increase in interest rates that we are now witnessing. This risk is further mitigated by the fact that a large part of the financial debt of municipalities is held by the Central

Administration, under financial assistance programs led by the Municipal Support Fund (FAM), with more favourable conditions, as also highlighted by the credit rating agency DBRS Morningstar.

The information limitations caused by the delays and obstacles in the implementation of the SNC-AP in Local Government, and several difficulties in complying with the reporting established by law, remain in 2023, despite some progress. These limitations also undermine the early warning mechanism on deviations from the total municipal debt established in Article 56 of the financial regime of local authorities.

In order to ensure greater transparency of budgetary and financial developments in this subsector, it is essential that municipalities with missing information (and other local authorities and entities) provide this information in accordance with the legal provisions, in particular to DGAL, and comply with the duty of disclosure of financial statements on their institutional websites.