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## **ANMP**

### **AND THE PRESENT SITUATION OF LOCAL GOVERNMENT IN PORTUGAL**

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1. This document sets out to summarize some of the present features of local government in Portugal that stand for major concerns of ANMP and of the 308 Portuguese Municipalities:

- a) Local Authorities, contrary to other levels of power – despite the dramatic income cuts that have accrued since 2008, over 1 billion euros - are meeting their share in cutting down the public deficit and reducing expenditure: the monthly reports from DGO (Directorate-General of the Budget) highlight the fact that Municipalities are the only subsector showing a surplus.
- b) Previous income reductions together with present ones have fostered a situation that generated an unusual amount of overdue payments, over ninety days – roughly 1,4 billion euros.
- c) Municipalities are acting vis-à-vis the population as a buffer, namely in the social support area, assuming many roles which are not their purview but rather of the Government - such as supplying meals and transport, paying for medicines, rent and health-related support – namely for the unemployed and the elderly, children and people with handicaps.
- d) Such expenses amount to about 700 million euros in 2011 alone, and already up to 180 million during the 1<sup>st</sup> quarter of 2012.
- e) Most municipal investments were in the meantime cancelled, postponed or suspended, be it construction, repair or maintenance work.
- f) In light of this stark backdrop of income reduction, municipal public investment freeze and increase in current expenditure – over and above the specific remit of Municipalities – any working scenario involving further reduction of municipal revenue in the more or less immediate future is utterly unthinkable.
- g) Any new measure leading to further income cuts will inevitably cause:
  - I. Discontinuance of the social support Municipalities have been granting to populations, in lieu of Central Government;
  - II. Even further degradation of the state of repair of municipal buildings, infrastructure and equipment, due to total unavailability of funds;
  - III. Onset of an unheard of social revolt in Portugal, due to the lack of social buffering heretofore assumed by Municipalities.

2. It appears timely to annex to this document some elements quoted from a study recently undertaken by ANMP, which further develop some of the statements made above.

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## **ANNEX**

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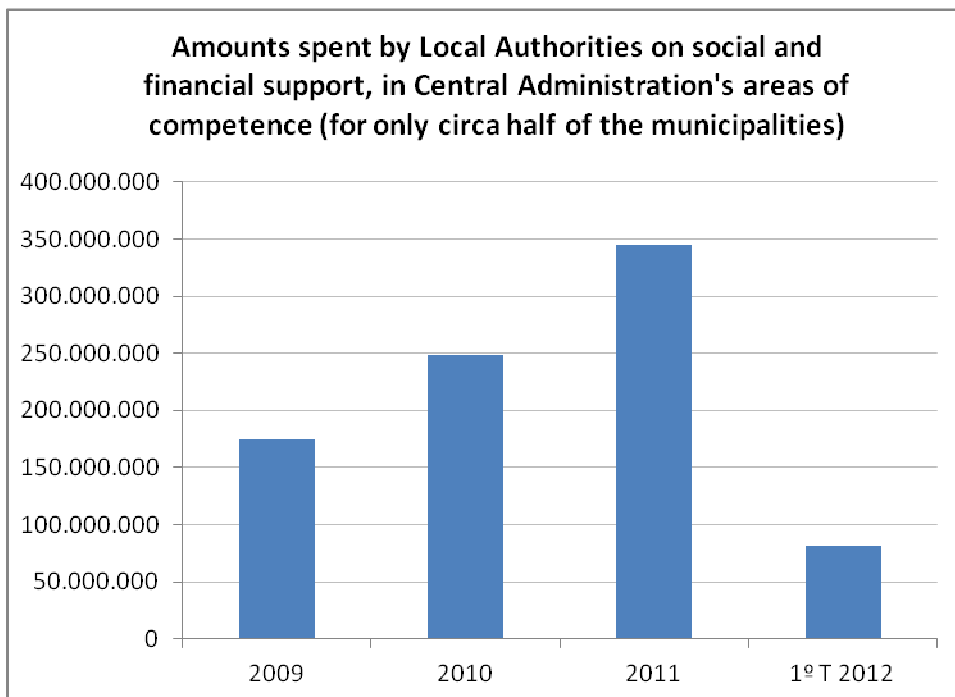
### **THE ROLE OF LOCAL GOVERNMENT IN THE COUNTRY**

1. Local Authorities are a pillar of the democratic and constitutional organization of the State. No such thing as a democratic State without local democracy, the latter calling for territorial decentralization of the State.
2. Local Authorities are on the front line of the struggle against the country's development gap and brought development to the whole of the territory, having brought Authority closer to the population and decentralized and democratized public investment. They have thus been a fundamental tool in developing and raising the living standards of the population, qualifying the territory and in promoting social, economic and cultural cohesion.

It is impossible to forget that such struggle against the country's development gap started in 1974 from a state of affairs marked by absolutely intolerable basic shortcomings – lack of distribution of water and power, of schools and of paved roads, across large swathes of the land.

**Without Local Authorities' investment, population; in most of the national territory would not benefit from any public investment...**  
and it must be remembered that around half of all public investment is made by Municipalities.

3. Municipalities have thus offset many of the shortcomings and deficiencies of central administration, oftentimes overstepping their specific competences. A great many social policies – in education and child care, in support of the elderly and those with handicaps, in social housing – are municipal.

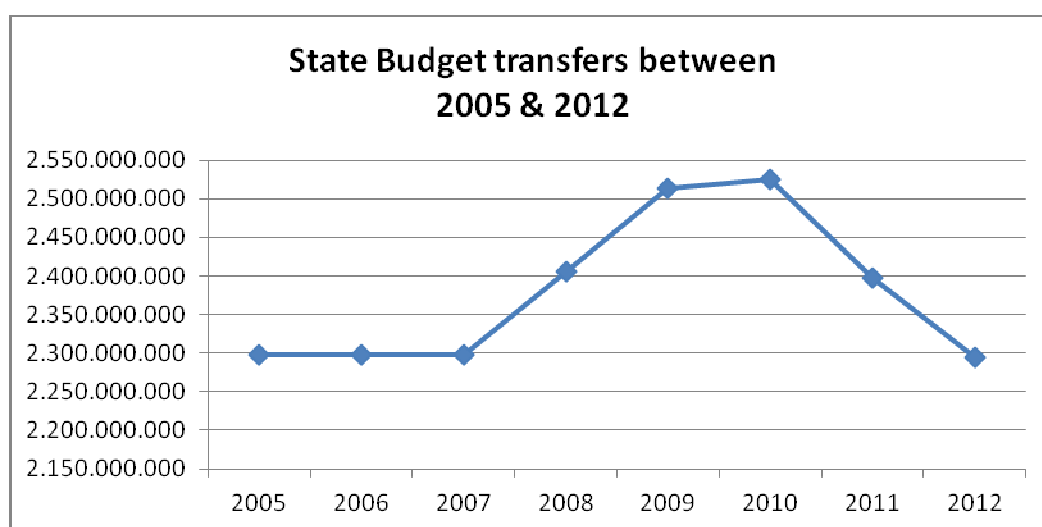


4. Even with all of the difficulties the country lives with and feels – and to which Local Authorities are obviously not immune – there has patently been a collective effort by the latter to minimize their effects. Despite all we're living through, Local Authorities have ensured the quality of life of populations.
5. However, such support role is now in danger. With present financial difficulties, social support to populations will not be able to continue, it being certain that **Local Authorities have been the real Ministry of Solidarity in Portugal.**

## **SOCIAL AND POLITICAL CONTEXT**

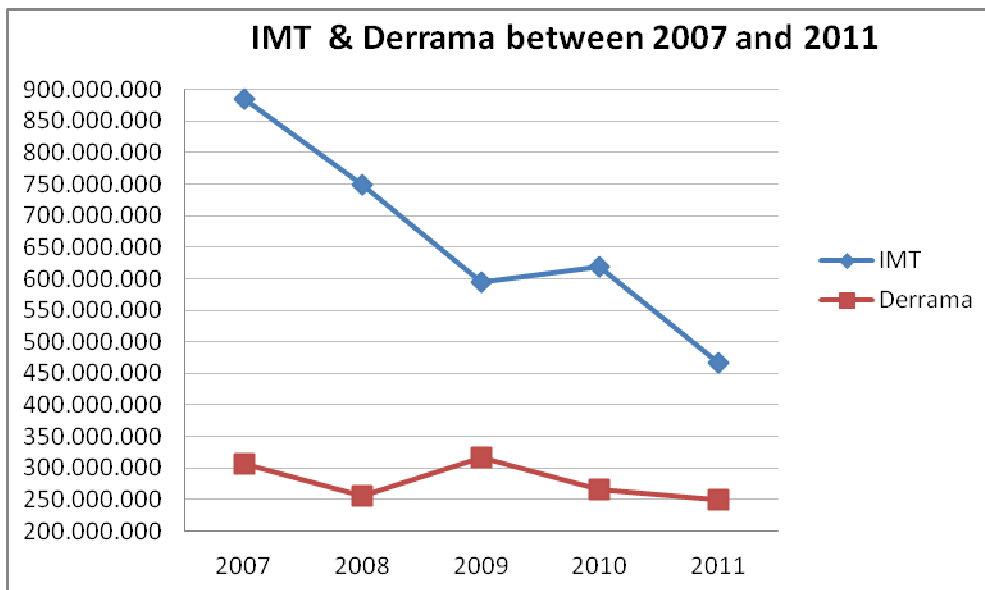
6. For both external and internal reasons that we will not go into here, Portugal has been going through enormous economic and financial difficulties in past years, with serious problems at the level of public accounts consolidation, excessive deficit and indebtedness, so much so that a default scenario was considered vis-à-vis international creditors, as access to external finance became more difficult.
7. Against such a backdrop, the Portuguese State signed a Memorandum of Economic and Financial Policies (MEFP) with the European Commission, the Central European Bank and the International Monetary Fund, in which an important set of obligations were entered into, in many diverse fields.
8. During the application and within the scope of the Memorandum of Economic and Financial Policies, the following has taken place:
  - a) recession of the Portuguese economy

- b) tax increases
  - c) revenue contraction
  - d) increase in unemployment
  - e) decrease of social support and general social discontent
9. The population at large and both entities and institutions in general are “at the limit” of their possibilities or already over it. Local Authorities have been, for quite some time now, in a very delicate situation, inasmuch as their revenue has dwindled dramatically down over the last few years. In 2012, Local Authorities received from the State Budget the same amount they had received in 2005.



10. In parallel, Central Government has implemented and plans to further bring in a significant set of changes impacting Local Government, well beyond the undertakings entered into in the MoU, which limit and violate local autonomy.
11. We have further been witnessing a sharp decrease in revenue from the State Budget and decrease of municipal tax revenue – namely **IMT**-municipal property (real estate) transfer tax and **Derrama**-municipal surcharge on corporate income tax.

	2007	2008	2009	2010	2011
<b>IMT</b>	885.115.636	748.234.500	594.696.157	619.659.497	466.023.247
<b>Derrama</b>	306.709.600	256.685.909	316.861.543	266.806.442	250.291.320



Furthermore, during the 1<sup>st</sup> quarter of 2011, IMT dropped by an additional 28%.

Concomitantly, the VAT rate was steeply increased, to wit the 17% hike for electricity, which translated into a 45 million euros increase in State revenue and a corresponding increase in municipal expenditure.

Consequently, restrictions to municipal autonomy are both serious and very many, be they financial or administrative, and probably unconstitutional in many cases. Municipal investment was drastically cut down, while current expenditure of Local Authorities goes up – particularly bearing in mind the responsibilities taken up by Town Councils in lieu of Central Government.

**12. The Portuguese must be alerted to the truth: we're already at a point where Local Government's normal operation is rendered non-viable, in clear disrespect of the Constitution and of decades of autonomy.**

13. All 308 Municipalities owe 7.734 billion, a figure clearly below the debt of a single one of the public companies – what would it be like were we to add up the debts of all of the others? And even such value must be seen in diverse lights, suffice it to remember that in countless cases – namely in the social field – Local Authorities are replacing Central Administration in social support, which obviously has costs, while conversely their revenue was drastically cut by Central Government.

14. Most assuredly Local Authorities' debt is a reality. Some Municipalities are in a difficult financial situation, albeit fortunately a clear minority. This crisis, of which so much is said, has affected everybody, Citizens and State, including Local Government.

15. However, Portuguese Municipalities have been, over the past few years, amongst those public entities which have proportionately contributed most to the country's budgetary consolidation effort. Municipalities have indeed been on the front line in furthering this national goal, ie balancing public accounts, giving their substantial and

decisive contribution which has translated into a municipal surplus, in contrast with the persistent Central Administration deficit.

**Revenue, Expenditure and Global Balance for Central Administration & Social Security** € Million

	Period	Revenue		Expenditure		Balance		YonY (%)	
		2011	2012	2011	2012	2011	2012	Revenue	Expenditure
Central Administration									
State	jan-mar	9.004	8.610	9.896	10.247	-892	-1.637	-4,4	3,5
Autonomous Services & Funds w/o EPR*	jan-mar	5.700	5.622	4.829	4.678	871	944	-1,4	-3,1
EPR*	jan-mar		889		957		-68		
Social Security	jan-mar	5.744	5.806	5.164	5.528	580	278	1,1	7,1

**Revenue, Expenditure and Global Balance for Regional and Local Administrations**

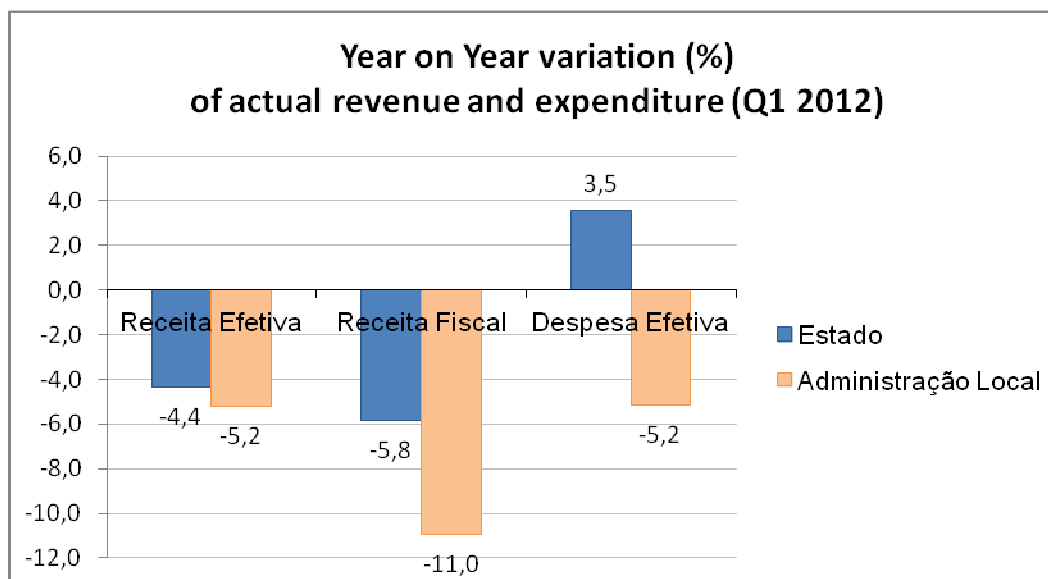
€ Million

Period	Revenue		Expenditure		Balance		YonY(%)	
	2011	2012	2011	2012	2011	2012	Revenue	Expenditure
jan-mar	436	418	424	399	12	19	-4,1	-6,1
jan-mar	1.036	982	1.015	963	21	19	-5,2	-5,2

Note: Cash-accounting values (Public Accounts), un-consolidated.

Source: Ministry of Finance

\*EPR: Re-classified public entities



Note: implementation values refer to February 2012 (accrued values).

Source: Ministry of Finance

Receita Efetiva: Actual Revenue; Receita Fiscal: Tax Revenue; Despesa efectiva: Actual Expenditure; Estado: State; Administração Local: Local Administration.

16. Nevertheless, cuts have been applied to municipal revenue which, depending on the terms of comparison, may be expressed as follows:

- 119 million euros down from State transfers in 2011:
- 674 million euros down on transfers mentioned in the State budget for 2010 (25% less in three years).

- c) 87 million euros down by way of the non-application of the Local Finances Law since 2010 (32% less in three years).
17. The financial health of Municipalities is therefore undergoing growing degradation, their State Budget revenue going down and local taxes likewise, causing an ever growing divergence between the growth rates of State and Municipal revenues, to the latter's detriment.
18. Restrictions imposed on Municipalities are included in measures with a view to meeting public deficit targets of 5,9% of GDP in 2011, 4,5% in 2012 and 3,0% in 2013. However, the effort required over the past few years from different State subsectors so as to get the deficit under control has been uneven and disproportionate. **Only Municipalities have met such targets.**
19. These measures against Local Government and local finances are however not merely of late. Over past years we have been witnessing a deterioration of local finances, through:
- a) a Local Finances law, approved in 2006, which was never implemented except for 6 months and which, had it been implemented, would have severely unbalanced the finances of those Municipalities more heavily dependent on the State budget;
  - b) successive decreases in State budget transfers to Municipalities, contrasting with revenue increases in Central Administration;
  - c) "delegation" of competences w/o transfer of corresponding funds;
  - d) "obligation" for Municipalities to implement numerous competences that Central Administration refrains from implementing;
  - e) sharp decrease of IMT, Derrama and development and construction fees, due to economic recession;
  - f) financial asphyxia of Municipalities, with increases in arrears due to revenue reduction;
  - g) progressive decrease of the weight of municipal revenue and expenditure in State revenue and expenditure;
  - h) repeated increases in the debts of the Ministries of Education and Solidarity which amounted, for 2011 alone, to 60 million euros for pre-school education.
20. **What precedes enables one to realize that the message that keeps being hammered, according to which Municipalities are to be blamed for the disastrous use of public funds, does not dovetail with reality.**
21. The Portuguese should know that total municipal debt stands for 4% of total State debt. The remaining 96% are the responsibility of that very same State, Municipal debt (4%) would never have been enough grounds for the Troika, the cancellation of Vacation and Christmas allowances, etc.
22. It is thus clear that **Portuguese Municipalities are not responsible for the degradation of public accounts.**