

# **Center of Expertise for Local Government Reform**

## **Local Finance Benchmarking**

### **Country Report: Portugal**

#### **Chapter I. Overall trends in local finances and financial management**

Municipalities in Portugal face new challenges which require them to reinforce the capacity to formulate strategic options in terms of financial management, with special emphasis on strategic decisions concerning fiscal revenue. These new challenges will be faced in a scenario of reduction in intergovernmental transfers and more demanding requirements concerning accountability and transparency of local financial management. These new challenges occur simultaneously with an increase in local attributions and a new role as providers of local public goods and local merit goods.

After almost four decades of democracy, Portuguese municipalities reached a stage of maturity and are adopting a new political agenda. In general, the Portuguese local governments have the experience and the organization to aspire to move from quantity to quality, production to management, information asymmetry to transparency and accountability, monopoly to competition, growth to sustainability, and bureaucracy to simplicity. This new political agenda is consistent with a more central role played by financial and fiscal decisions when formatting municipal strategic plans implying qualified human resources, an adequate institutional framework and financial resources to cope with an increased sophistication in the provision of utilities to residents.

The Law of Local Finances in Portugal has been subject to frequent changes in the last three decades (the most recent change was published in September, 3 of the current year). Despite the progressive sophistication of the law of Local Finances, municipal finances in Portugal can be characterized by six major features:

- i) The low level of municipal fiscal autonomy (although there is a trend towards more autonomy);
- ii) The importance of real estate property as a fiscal basis for municipal taxes and user charges (the recent change in the Law of Local Finances eliminates IMT an indirect tax on real estate property after the year 2017);
- iii) The redistributive nature of intergovernmental grants, with poor municipalities relying mainly on transfers from central government;
- iv) The small, but increasing importance of fiscal competition among municipalities.
- v) The importance of investments in the management of the political business cycle;
- vi) The emerging of new political strategies based on quality of management and financial soundness.

In Portugal, the need to ensure the neutrality principle in local government's finances determined the use of taxes based on the benefit of tax payers. The tax on real estate property (IMI) can be understood as a tax based on the benefit of tax payers if the value of property is subject to frequent updating. The above argument has been decisive to keep real estate property as an important fiscal basis of municipal taxes in Portugal. There are shortcomings, though, namely the fact that real estate property is the basis for two important

municipal taxes (IMI and IMT) and it is simultaneously the basis for many user charges at local level. Therefore, there was a widespread feeling that real estate property plays an excessive role on municipal finances in Portugal causing two major negative effects: one is the permissive growth of construction in Portuguese cities occurred in the recent past; another is the excessive fiscal burden on housing. This idea has been confirmed in the last Law with the progressive elimination of IMT, a tax on transactions of real estate property,

In recent years Portuguese municipalities have benefited from the reform introduced in municipal taxes on real estate property. This effect is particularly observable on IMI (municipal tax on real estate property) with the revenue of this tax expected to increase in the near future. The growth of revenue of IMI resulting from the updating of property values generates an opportunity for municipalities to diminish the rates of IMI, but this decrease is limited by the financial situation of municipalities and by the loss of revenue from the progressive elimination of IMT.

In the last three decades several changes have been adopted in the way transfers from central government to municipalities are calculated. Despite these changes, the general characteristics of the system have been maintained. The amount of FEF (Financial Equilibrium Fund) to be transferred to municipalities is calculated using a formula. With the approval of the last Law of Local Finances this fund decreases from 25.3% to 18.5% of the average of the annual revenue of corporate income tax, personal income tax and value added tax. FEF is then divided into two funds (a General Fund and a Cohesion Fund). Each fund receives 50% of FEF, percentage that is maintained in the Law of Local Finances applicable next year.

The General Fund finances municipal expenses (provision of local public goods and services). It is distributed according to population, area, and other cost factors. The Cohesion Fund is distributed with the purpose to benefit less developed municipalities contributing this way for economic and social cohesion. Presently, this fund is subject to a correction by summing or subtracting a fiscal compensation to account for differences in the municipal tax basis. Municipalities with per capita municipal taxes above 1.25 of national average have a negative fiscal compensation. Municipalities with per capita municipal taxes below 0.75 of national average have a positive fiscal compensation. The Cohesion Fund is distributed according to an index of municipal social development compared with the national average.

After the approval of the Law of Local Finance in 2007, municipalities receive back 5% of income tax (IRS) collected from local residents. Municipalities can decide to reduce this percentage benefiting tax payers. This is an important change because it induces more fiscal competition among municipalities. Fiscal competition among municipalities is still low, but with the updating of real estate property is expected to increase. The increase in the value of real estate property and a new perception by local executives of the benefits of fiscal policies creates an opportunity for lowering IMI and IRS to taxpayers.

Many studies have been published concerning the political business cycle at local level in Portugal. There is a solid empirical evidence that, in the past, local executives managed the political business cycle and that local voters were more responsive to local investments rather than to quality of management indicators. This political pay-off of investments created the conditions for an excessive orientation of local executives to invest on infra-structure and social equipments without assuring the adequate operation conditions. If we consider this behavior and the lack of scale of many municipalities, it is no surprise that many local facilities have now low rates of use and some are short of funds to operate.

The last two changes in the Law of Local Finances (2007, 2013) considered this diagnosis and new requirements were introduced concerning the provision of information to local voters and on accountability. The new restrictions on municipal debt have been raising public concern on the financial soundness of municipal management, and consequently in the last two local elections, a few executives used the value for money argument, providing extensive information on debt and quality of management. It is predictable that more local executives will follow this strategy in the future. The adoption of quality of management strategies by

local executives is also a logical move because the basic needs concerning infrastructure and social equipments are fairly satisfied.

An important shortcoming for municipal action is the lack of a regional level in Continental Portugal. The central government is adopting the NUT II and the NUT III map to organize central government services and to induce municipalities to use this spatial organization in their candidacies to European Union funds. Analysts see the reorganization of central governments using these two maps as an intelligent way to create better conditions for a future regionalization process of Continental Portugal.

A controversial issue in Portugal is municipal size. To reorganize municipalities according to size is not an easy task because of an emotional attachment of population to their municipalities. The consolidation of local jurisdictions in Portugal was done at the level of Freguesia (lowest level of local government in Portugal) but there are calls for consolidation at municipal level.

## **Chapter II. National regulations drive local management**

The analysis of local finances and financial management in Portuguese cities was conducted for two Portuguese cities with different location and different size. Porto (located in the North region of Portugal and Beja a city located in Alentejo (South of Portugal). The exercise was conducted using the toolkit developed by the European Council (2009) with small adaptations for the Portuguese case.

The national experts visited the two cities and interacted with representatives of the municipality and technical personnel related with financial management in the municipality. The exercise itself proved to be useful for municipalities because it revealed to be a good tool for municipalities to do a self-evaluation of its organization and practices concerning fiscal and financial management detecting strengths and weak points to be improved.

The analysis for each city presented in annex to this report shows that for a large number of items of the toolkit the fiscal competences, the fiscal practices and the financial organization is determined by the legal framework all Portuguese municipalities have to follow (namely law of Local Finances, Budgetary Procedures determined by Central Government, accounting system POCAL, Code of Public Contracts, system of evaluation of civil servants SIADAP, etc). The legal impositions produce two contrasting outcomes. One outcome is the adoption by all municipalities of legal requirements in line with the recommendation of international organizations such as Council of Europe. This explains the maximum scores attributed to a significant number of items. A second outcome is the small margin Portuguese municipalities have to design a specific fiscal policy given the small competences they have to define their own fiscal resources and consequently the difficulty to find internal documents discussing fiscal options. In general, the level of conformity with requirements is high and consequently we can say that Portuguese municipalities adopt, nowadays, most of the formal impositions concerning budgetary procedures, public contracts, publicity, etc. The evaluation is different when we analyze items that were not subject to national legislation. In this case the evidence depends on the level of sophistication the organization attained, which determines a more formalized approach with the approval of internal codes and internal rules.

The sophistication of managerial procedures has been increasing steadily with the approval of new Laws of Local Finances and the refinement of budgetary procedures and accounting requirements. These legal changes have been fostered by the need to diminish the deficit of the State Budget and to control public debt. These constraints have indubitably a positive effect in the quality of financial management at local level, but also produce some instability when with the approval of the State Budget new restrictions that are not in the Law of Local Finances are imposed on municipalities. This have been the case with the approval of new limits to rates of local taxes, of new budgetary procedures (*Lei dos Compromissos*) and the decrease in the global amount of transfers to local governments.

Above we referred that most of the good practices are followed if they are a legal requirement. Consequently the good results we obtain can be correlated with the quality of financial management set for all municipalities in Portugal. Although there is room for improvements, it is observable that municipalities are moving its political agenda and, in special, we can observe the adoption of innovative practices in what concerns the relationship of municipalities with citizens. Examples of this strategy are the production of accessible financial information, the design of a simulator for citizens to calculate user charges, the organization of a single code with all the rules approved by the municipality to make it easy for citizens to access information, the use of e-government in most of the municipal services, creation of front desk offices, the use of electronic forms of public procurement, the creation of a forum to hear civil society, the approval of a participatory budget, etc.

Despite this move towards more accountability and transparency, further developments can be introduced. Draft documents are accessible when public hearings are required (*Regulamento de Taxas e Preços*, for example) but there is room for more openness to society in new areas. The production and publicity of internal documents discussing fiscal alternatives, the definition of financial priorities in social areas need further development. This move should be a decision of each municipality and not a legal requirement, though.

In the table below we present the average score of the 80 indicators used in the benchmarking study (46 related with financial resources at local level and 34 related with financial management at local level). The table presents the average score for groups of indicators.

In general, good scores can be observed for all the groups of indicators. The lowest average scores for each municipality (in bold) occur in items where municipalities have less capacity to intervene (namely the timing of fiscal decisions, local tax policy design, tax policy), and in items where municipalities are increasingly aware of its importance (namely, information and publicity, capacity development of staff, and the design of fiscal objectives and fiscal strategy).

	Average Score for Beja	Average Score for Porto
<b>Financial Resources of Local Authorities</b>		
Local Tax Policy Design	9.65	9.45
Transparency and involvement of the public	9.50	9.50
Timing of fiscal decisions	9.20	<b>9.20</b>
Use of IT	10.00	10.00
Capacity development of local staff	<b>8.47</b>	<b>9.30</b>
Local tax policy design	<b>7.97</b>	<b>9.45</b>
Tax policy	<b>8.25</b>	<b>9.35</b>
Information and publicity	<b>8.90</b>	9.57
Tax administration	10.00	10.00
Tax system audit	10.00	10.00
Fees, charges and miscellaneous revenues	9.60	9.60
Capital budgeting financing	10.00	10.00
Local Property	10.00	10.00
<b>Financial Management of Local authorities</b>		
Fiscal strategy design	<b>8.88</b>	9.68
Budgeting methods and capacity	10.00	9.65
Budgeting procedures	9.10	<b>8.63</b>
Fiscal policy objectives	<b>7.92</b>	9.58
Special rules of budget adjustments and implementation	9.44	9.60

Special control supervision on activities	9.00	9.68
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In Beja the lower score in capacity development of local staff is mainly related with the fact that there is a need to enlarge the focus of training for elected bodies, namely in financial issues.

For this municipality the lack of available documents on design of tax policies indicates there is a need for further improvement.

The evaluation of tax policy is influenced by the lower score in litigation management. There is room for simplification and more coordination, which will result in savings in time and costs to the municipality.

The information and publicity are of utmost importance in the relationship between management and users of the public service. Broadly speaking, there have been very significant improvements in Beja, particularly through the use of new information technologies and the internet. The analysis revealed gaps in the treatment of financial and tax information and, in special, it is considered very useful to simplify information available on the website of the Municipality to make it more readable by citizens.

Beja is a good example in what concerns the implementation of a participatory budget. To foster the participation of citizens, it is considered that this experience can be further developed, on the one hand, through the choice of more municipal investment projects, on the other hand, by identifying needs to be satisfied through participatory budget.

The municipality of Beja has no convention with the wider community and nonprofit organizations (NGO) in particular on the provision of municipal services. In a perspective of complementarity and subsidiarity, NGOs can provide services facilitating the relationship between the city and the people, particularly among the most vulnerable groups of society.

Good practices for sharing data and information with other public bodies can be deepened, especially in tax matters.

Porto is a large municipality and so it benefits from a more sophisticated organization. Despite this fact, it also shows some areas where improvement can be introduced. Like in Beja, the lower average score in capacity development of local staff in the municipality of Porto is mainly related with the fact there is a need to enlarge the focus of training to elected bodies, namely on financial issues.

In the municipality of Porto we also found a lack of internal documents on the analysis of tax policies options. Porto has conducted some innovative studies on fiscal matters, but these procedures are not a regular task, and so improvement can be introduced.

The evaluation of tax policy is also influenced by the lower score in litigation management. There is room for more coordination in this area which, will result in savings in time and costs to the municipality.

Being a large municipality, Porto has a large and complex organization. The size of the organization reduces flexibility in what concerns budgetary procedures, especially in what concerns the participation of citizens. The city of Porto has not implemented a participatory budget yet, experience that should be introduced in the near future.

Like in Beja, there is plenty of room for sharing data and information with other public bodies, especially in tax matters. The availability of data resulting from the sharing of information by

central government fiscal services will be an opportunity to internally create a team specialized in elaborating tax policy proposals, and using external expertise occasionally.

In the municipality of Porto, there is room for more cooperation with other entities, namely the sharing of costs and acquisition of goods and services.

### **Chapter III. Policy proposals**

Policy proposals are organized in two levels: Policy proposals addressed to central government and policy proposals addressed to Portuguese municipalities.

#### Policy Proposals to Central Government:

As we referred above, the new law of Local Finances was published in September 2013. This new law introduces important improvements in the legal framework of financial management. Stability is itself important to municipalities and therefore further legal changes are not expectable in the near future, despite the fact that consolidation of municipalities still might be a goal to cut costs in the perspective of central and supra-national authorities, and the creation of regions still is an aspiration for many local politicians.

The stability of the legal framework should be accompanied by the stability of financial resources. Therefore five objectives should be pursued in the near future.

First, central government must guarantee a stream of fiscal revenue compatible with the responsibilities municipalities have now. Therefore, revenue from IMI should revert to municipalities instead of reverting in part to central government.

Second, Central Government should avoid proposing local taxes reductions without the agreement of local governments.

Third, the reduction of the total amount of central government transfers must be reexamined in line with effective data of revenue collected with local taxes, namely with IMI.

Fourth, the transfer of new Central Government responsibilities to local governments should be accompanied with the corresponding financial resources needed to ensure them.

Fifth, there is a need for improvements in the timing of fiscal decisions. Changes in the legal framework with repercussions on local government's financial management should be adopted in an adequate timing to allow municipalities to take the appropriate fiscal decisions at local level in a timely manner.

In our benchmarking exercise we found that there is room for improvements in the area of information and publicity at local level. With the approval of the last Law of Local Governments Finances there is a substantial progress in national regulations concerning this area; the new national framework should now be implemented by municipalities.

In a medium-term perspective the finances of local governments in Portugal should evolve to a higher degree of fiscal decentralization. That can be done through the definition of new sources of revenue and by increasing the percentage of income tax revenue that reverts to municipalities. The increase of the percentage of income tax revenue transferred to municipalities will contribute to more tax competition at local level and will give tax policy design a more central role at local level.

#### Policy Proposal to Municipalities:

As we conclude in this report, the legal framework municipalities have to comply with is well developed and with the new Law of Local Finances it is going to be even more sophisticated.

Therefore, our policy proposals have to be seen as recommendations to municipalities and have the goal to allow further adjustment of fiscal and financial management to the needs of the citizens. These policy proposals are not intended to be incorporated in national requirements and are transversal to the two municipalities and probably valid for the majority of Portuguese municipalities.

i) More explicit fiscal policy

There is plenty of room for a more explicit fiscal policy. Internal documents on fiscal objectives, rationalizing the priorities and explaining the proposals are welcome. The capacity to influence fiscal policy by municipalities is small, but within the existing legal framework municipalities can do more.

ii) More fiscal expertise at local level

The new Law of Local Finances introduced new obligations to central fiscal services to share data with the municipalities concerning municipal taxes. With this new data financial departments need to create the competencies to produce internal recommendations to local executives on fiscal matters.

iii) Sophistication of internal regulations

Financial procedures are set by national legislation, but there is room for further internal development: definition of codes of conduct, risk management procedures, anti-corruption codes, budgetary procedures; preparation of more simple regulations, etc where municipalities still have space to improve. The approval of a charter of citizen´s rights is an initiative useful to explain to citizens the obligations both of the municipality and citizens.

iv) Sophistication of financial and budgetary tools

There is room for further development on the analysis of costs in line with the efforts done to justify economically the value of user charges. The exercises accomplished the formal requirement, but most of the times were not internalized as a regular procedure.

The use of more demanding management tools is recommended, namely preparation of zero-based budgets, the use of balanced scorecards to evaluate services, and analysis of efficiency of services provided by the municipality. In municipalities that have not done that, the creation of an internal audit service with clear functions and the definition of whom this service responds to will be very useful to increase transparency of municipal management.

v) Transparency and accountability

The evaluation of contracts and the relationships with municipal companies and municipal foundations are now under high scrutiny. There is a need to continue the effort namely ensuring more publicity of available information.

The publicity of financial data by municipalities is nowadays a common task. Nevertheless, the information provided to citizens tends to be too technical. There is a need for a more simple way to present the accounts of the municipalities in order to be readable by common citizens. In special, an effort must be made to show the provenance of municipal revenue and its use in alternative expenditures.

An analysis of the revenue generated in social areas (for example housing rents) and expenditures in social areas (for example in housing expenditures) are of crucial importance for citizens to understand the financial effort made by the municipality. The availability of data on budget execution, municipal debts, municipal legal contingencies, should be available in the site of the municipality on a regular basis.

vi) Participation of citizens

Participatory budgets should be used in more municipalities as a way to increase participation of citizens in the definition of local priorities. Furthermore, in municipalities using this instrument, a more important role can be played by this budgetary instrument.

vii) Cooperation with other entities

The level of cooperation with other entities can be deepened, including the sharing of costs and the acquisition of goods and services, as it will reduce costs for the entities involved.

viii) Specific recommendations for the municipality of Beja:

In Beja reinforcement of medium-term financial planning will require hiring more expertise in tax and financial issues. Increased attention should be given to exemptions and to the enlargement of brackets in the business tax. More attention also should be given to stability of fiscal revenue, which will imply the definition of rates of taxes in a broader temporal context. The creation of a control and audit unit could prove to be useful in the reduction of this management gap.

ix) Specific recommendations for Porto

Porto needs to introduce budgetary procedures to increase participation of citizen. The implementation of a participatory budget is an improvement that should be considered in the near future.

## **Chapter IV. Lessons Learned from the project**

The present study has been proved to be very useful as a tool of municipal self-evaluation. Therefore the enlargement of this study to more municipalities will be very useful, especially if this enlargement includes municipalities with even more distinctive features in size, urban/rural areas, high/low density areas, ultra-peripheral regions, etc.

The application of this methodology to more municipalities can be seen as a tool to improve financial governance at local level. The rating of financial governance is useful as an external sign of quality of management. If done on a regular basis it can be used as a way to improve quality of financial governance through time. It will be a useful tool for local executives to analyze the improvements introduced in municipal financial management. The temporal comparison of results instead of a cross sectional comparison will be useful because it will attend to the different characteristics of municipalities and their different management agenda.

The reorganization of the items of the toolkit separating the ones that are legal requirements all municipalities have to comply from the others might be useful. We understand that in an international perspective it is useful to keep the items that are legal requirements in the analysis because they may not be in another country, but the number of items may be reduced.

At a national scale the reduction has to be more profound.

To make the tool more objective an effort should be done to define more precisely using if possible indicators with a quantitative nature. Some indicators capture the same reality; therefore an effort should be made to eliminate redundant indicators. A good example is the indicator 10.1.



The implementation of this study in a very constrained time schedule revealed to be a difficult task. In future studies, it is necessary to define a more generous time schedule, which will allow more interaction between national experts and technical services at local level. In the two cities the cooperation was excellent, which allowed execution of the analysis within schedule despite the fact that it was implemented during the election period at local level in Portugal.

#### Annex 1.

##### Local finances and financial management in BEJA.

Beja is a Portuguese municipality, located in the NUT II - Alentejo and in the sub-region NUT III - Alentejo. Its population stands at 35,319 inhabitants and its area is 1 146.44 Km<sup>2</sup>, so having a population density of 31.2 inhabitants per km<sup>2</sup>, and it is therefore an area of low population density characteristics. The county is divided into 12 parishes, urban and rural. In the Portuguese context it is considered a medium-sized county.

**Table 1. Population**

	1995	2000	2005	2010	2012
Beja	35 760	35 726	35 968	35 904	35 319
Baixo Alentejo	138 666	135 052	131 466	126 962	124 690
Alentejo	777 816	775 954	770 869	758 707	748 699
Portugal	10 043 693	10 330 774	10 511 988	10 572 721	10 487 289

The municipality of Beja fits into the 30 municipalities, which in 2009 had an indicator of per capita purchasing power simultaneously above the national average and sub-region average (112.74 and 82.06, respectively).

Its main activities are trade, agriculture and services, with a strong presence of public services (municipal, education, health and administration). At the farm level, it should be noted the cultivation of olive groves and vineyards, made possible by the backwater area of Alqueva as well as livestock.

The city has access to Lisbon and Évora through main roads, railways and an airport infrastructure.

According to the Broad Economic Plan - Budget 2013, in 2013 Beja has a budget that amounts to € 34,670,000.00. This budget incorporates the decrease of revenue induced by the slowdown of economic activity in Portugal.

**Table 2. Fiscal position in 2011**

	Fiscal revenue as % of total revenue	Own revenue as a % of total revenue	Per capita fiscal revenues	Per capita own revenues	Per capita expenditures
Beja	23.4	39.4	151.12 €	252.82 €	644.51 €
Portugal	30.8	46.8	232.15 €	344.16 €	730.92 €

Source Contas de Gerências, DGL. Receita cobrada e despesa paga.

Appropriations (revenue / expenditure) are current and capital € 23 110.00 € 11 560 000.00. Own revenues represent 29.84% of total revenue and Municipal Funds coming from the state budget contribute 29.78%.

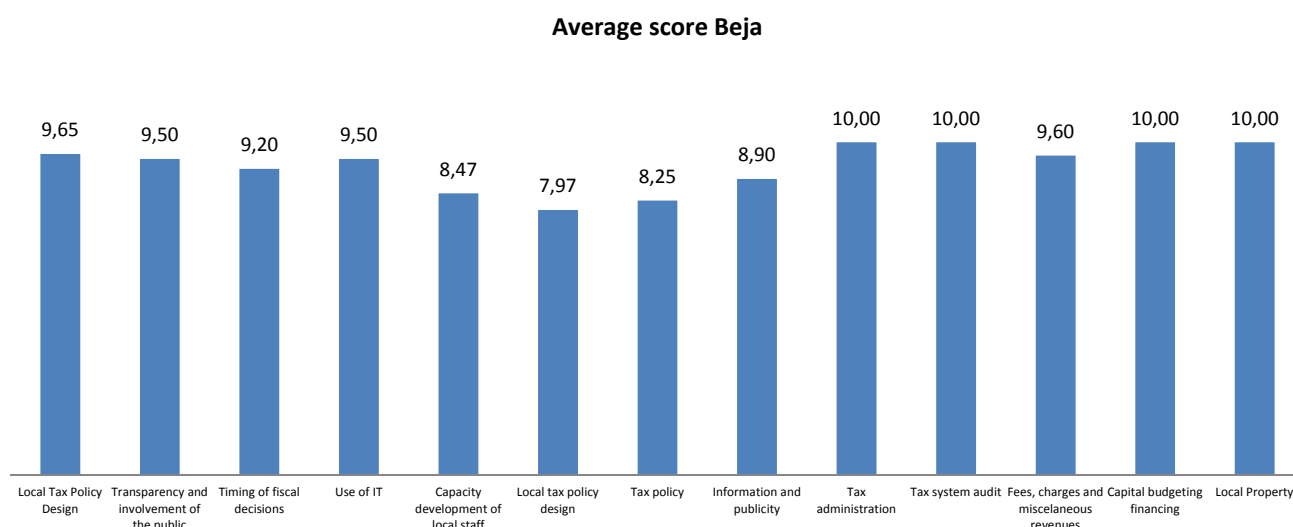
#### Concluding Remarks and Recommendations

In summary scores, the municipality of Beja reached a total score of 731.10 for a total maximum of 800, which on average represents a value close to 9.1 points. (see Annex)

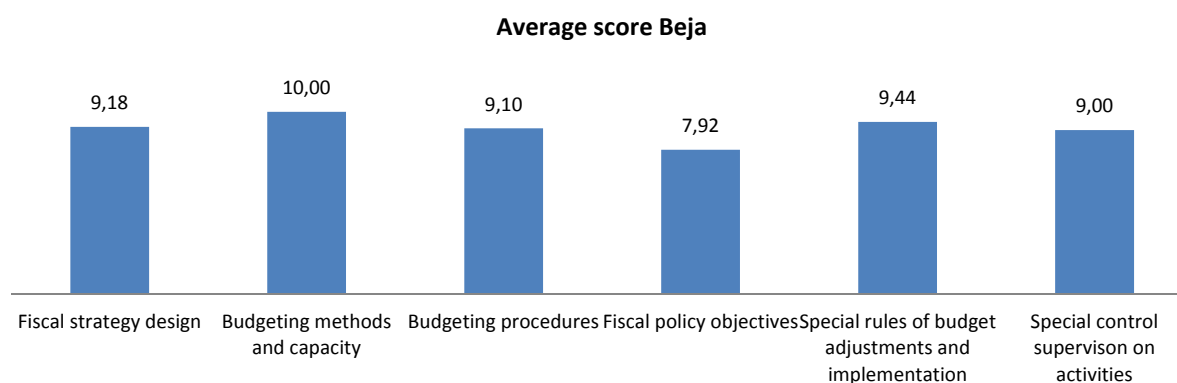
Indicators with financial resources can reach 419.20 points while the indicators of financial management come to 311.90 points. However, since the analysis items are different 46 and 34 respectively the average achieved is almost identical.

As explained in terms of assigning high scores achieved, we emphasize at this stage the items in the fiscal policy objectives (7.92) that got the lowest score, while one can realize that this score is also the responsibility of local actors.

### Benchmarks of financial resources of local and regional authorities



### Benchmarks of financial management of local and regional authorities: local authorities



## Annex 2

### Benchmarks of financial resources of local and regional authorities

General principles of local fiscal policies	EVALUATION FOR BEJA		SCORE
1. Local tax policies design			
1.1. Local revenue policies should be approved by elected bodies (R1)	<p>In Portugal Municipalities have patrimony, financial autonomy and the capacity to define their own <i>regulamentos</i> within the limits set by national legislation.</p> <ul style="list-style-type: none"><li>• The Municipal Assembly approves the rates of IMI (urban real estate property tax) and Derrama (business tax) within an interval of rates set by national legislation. For the municipal taxes IMT (tax on transactions of real estate property), and IUC (tax on vehicles) the rates are already defined by national legislation</li><li>• The Municipal Assembly approves the percentage of income tax revenue (IRS) collected from residents that revert to the municipality up to 5%. If the municipality approves a percentage less than 5% local residents will be benefited.</li><li>• The Municipal assembly approve user charges (<i>Taxas</i>). These have to be in proportion with the benefit of users and costs of the services and goods provided.</li><li>• Municipal Executive Council (Câmara Municipal) approves prices (in general, prices have to cover the</li></ul>	10	

	<ul style="list-style-type: none"> <li>cost of services provided by the municipality).</li> <li>The Municipality can obtain credit within the limits set by national legislation.</li> <li>Municipal Assembly can approve subsidies, exemptions and tax reliefs according to Local Governments Finances Law and regulatory codes of the Municipality.</li> </ul>	
1.2. Impact assessment of local revenue policies should be made public (R3)	<ul style="list-style-type: none"> <li>Public access to local budget documents in the Municipality: Yes, after the decision of the Municipal Assembly.</li> <li>There is the possibility of participatory budgets in the municipality: Yes</li> <li>The budget is presented in the following ways: in paper and in digital form</li> <li>Dissemination of information on the budget: information sent to public entities according to national legislation and also available in the site of the municipality.</li> <li>The impact assessment of local revenue policies is done in the following documents: economic and financial study to set user charges; public hearing of regulations (<i>Regulamentos</i>) setting user charges and in other cases according to national legislation; hearing of entities affected by projects of <i>Regulamentos</i>; complaints; studies of quality and satisfaction of users of municipal services; analysis of offenses.</li> </ul>	10
1.3. The mix of local revenues from income and property of business enterprises and persons/residents should be balanced.	<ul style="list-style-type: none"> <li>In Portugal municipalities collect revenue from income (IRS, Derrama) and from property (IMI, IMT and IUC).</li> <li>The municipality of Beja has been concerned in the various budgets to balance revenue sources, for example, exempting companies as a way to facilitate their maintenance and location in the county.</li> <li>In Beja, municipal fiscal revenue from real estate property (IMI) have been growing in absolute and relative terms. While in 2010 accounted for 46% of revenues from direct taxes in 2012 accounted for 56.3%, which in nominal terms is an increase of 228 thousand euros.</li> <li>The change in the mix of local revenues depends mainly on changes in the Local Governments Finance Law. Municipalities can influence revenue when they choose rates for taxes where they have the capacity to do so.</li> <li>The changes in the Local Finances Law in Portugal have been increasing the importance of revenues coming from income. This is done by transferring 5% of Income Tax collected from the residents to municipalities. The municipalities can decide to benefit resident tax payers by setting a value less than 5%.</li> <li>Accordingly, the Municipality decided to differentiate Derrama, depending on the size of the companies. The Derrama levied at 1% in companies with a turnover of less than € 150,000.00 and 1.5% in companies with a turnover exceeding € 150,000.00.</li> </ul>	8.6
1.4. Tax rate increases imposed on business enterprise are no higher than on private individuals.	<ul style="list-style-type: none"> <li>Over the past three years, tax revenues suffered slight variations. In 2012, revenues decreased 12.3% over the previous year, coupled with the economic climate:</li> <li>municipal fiscal revenue from property (IMI) has been growing in absolute and relative terms. While in 2010 accounted for 46% of revenues from direct taxes in 2012 accounted for 56.3%, which in nominal terms is an increase of 228 thousand euros.</li> <li>With an expression lower revenues from IUC (vehicle tax) grew from 10.4% in 2010 to 14.4% in 2012, compared to total revenues of taxes.</li> <li>Instead, there has been a noticeable decrease in revenues of IMT, which increased from 31.6% in 2010 to 19.3% in 2012. The Derrama decreased slightly between 2010 and 2012, 10.4% and 9.9%, respectively. Currently, there is a strong dependence of the revenues associated with the property, common to a very significant number of municipalities, which together account for about 70%.</li> </ul>	10
<b>2. Transparency and involvement of the public</b>		
2.1. Budgetary and financial discussions should be made at open meetings (R2)	<ul style="list-style-type: none"> <li>The meetings of Municipal Assemblies are open to the public but citizens do not participate in the discussion of financial documents.</li> <li>Financial documents (Budget Report/<i>Relatório do Orçamento</i> and Management Report/<i>Relatório de Gestão</i>) are available to citizens in the site of the municipality.</li> <li>Minutes of meetings both of the executive council (Câmara Municipal) and of the Municipal Assembly are available in the site</li> <li>Local media inform the public on the decisions.</li> <li>Participatory budget: the City held a series of meetings in order to gather data for the preparation of that document. The budget allows people to assist the municipal executive in determining relevant projects for the county (for a pre-defined amount).</li> </ul>	9
2.2. Local government associations should be involved in drafting local tax regulations (R5)	<ul style="list-style-type: none"> <li>The National Association of Portuguese Municipalities (ANMP) is involved in negotiations with Central Government in major decisions concerning municipal finances.</li> <li>Usually ANMP participates with representatives in Commissions to change legislation related with municipal finances. The last Law of local Finances creates a council where ANMP is represented. This council has as main purpose to follow up municipal finances.</li> <li>ANMP participates in the process presenting their own proposals for the design of legislation on municipal finances.</li> </ul>	10
<b>3. Timing of Fiscal Decisions</b>		
3.1. Decisions on revenues should be made parallel to expenditure (R.4.)	<ul style="list-style-type: none"> <li>Under normal circumstances, the approval of State Budget in Portugal occurs by November 30.</li> <li>Frequently the State Budget changes the amount of transfers to municipalities and debt limits.</li> <li>Although there are stable rules under the Local Government Finances Law, State Budgets introduce some disturbance on municipal revenues.</li> <li>Municipal deficits are allowed but limits on municipal debt are the major restriction.</li> </ul>	9.2

	<ul style="list-style-type: none"> <li>Local budget amendments are made by elected bodies.</li> </ul>	
<b>4. Use of IT</b>		
4.1. Managerial efficiency should be improved by IT in (R6):	<ul style="list-style-type: none"> <li>Accounting software is used by the finance department: YES.</li> <li>Service organizations are linked to municipal accounting systems electronically: YES</li> <li>Local treasury is in operation: YES</li> <li>Number of electronic datasets available/used by the local administration: One in the financial services and a large number for all services.</li> <li>Local databases are connected and integrated: YES</li> <li>Councilors have email address and access to internet: YES</li> <li>Local government has a website: YES</li> <li>Draft council documents are put on the website: YES</li> </ul> <p>The municipality of Beja has been making a strong commitment to administrative modernization through the equipping of the various computer services and network organization to enable better operability, reflected in the services provided to citizens and businesses. Financial service has its own software, which measures the cost of all the services of the municipality. Investments in information technology have had impacts on the level of interoperability of the various sectors. For example, they refer to inventory management, enabling efficient management, reflected in the financial and service benefits. The services have databases of companies and individuals.</p> <p>The municipality has an intuitive and full website. Organizational units and their employees have email. The process of acquiring goods and services are developed in an electronic platform, which, in addition to dematerializing and streamlining processes, ensures transparency in the decisions. The modernization of services is one of the structural pillars covered in the GOP in 2013.</p>	10
<b>5. Capacity development of local staff</b>		
5.1. Training in various forms are needed for the local staff (R7)	<ul style="list-style-type: none"> <li>Percentage of civil servants with training courses organized locally in a year: 47%</li> <li>Percentage of Staff days spent at training courses in a year: 0.005%</li> <li>Percentage of elected local officials and councillors taking courses organized locally: Not available</li> <li>Budget for training in percentage of labour costs: 0.005%</li> <li>Subjects of training courses (legal, financial, fiscal, management, other skills development): very diversified.</li> </ul>	8.6
5.2. Systems should be set up to enhance professionalism in financial and fiscal matters (R8)	<ul style="list-style-type: none"> <li>Meeting national employment standards of fiscal staff in one year: YES</li> <li>Meeting internal rules of qualifications for finance departments: YES</li> <li>Fiscal experts available at line departments: 0</li> <li>Access to fiscal information by all units of local administration: NO</li> </ul> <p>Municipalities shall observe compliance with the national standards of fiscal rules. This compliance is based on human resources with expertise in taxation and financial. In addition to the existing technical capacity in the city, we consider sparse, with the existence of a ROC - Chartered Accountant, has been hired consulting OCD - Chartered Accountant. It is recommended for better medium-term financial management, consulting services and expert on tax and financial planning.</p> <p>In formation, training has focused on workers in terms of legislative changes that impact the municipal management, the level of public procurement, fees and licenses, local finance and budget preparation.</p>	7.5
5.3. Systems should be set up to enhance ethics of staff in financial and fiscal matters (R8)	<p>Code of conduct for councillors on managing conflict of interest: YES for all the organization.</p> <ul style="list-style-type: none"> <li>Code and procedures for administrative staff for managing conflict of interest: YES for all the organization.</li> <li>Local regulations are harmonized with national rules: YES.</li> <li>Cases registered for following/breaking rules of conflict of interest: Not available.</li> <li>Internal rules of financial management are in place for setting limits to authorisation of payments: Defined bin norms of budget execution.</li> <li>Internal rules of financial management are in place to separate authorization of payments and actual transfers: YES.</li> </ul> <p>The municipality of Beja has a code of conduct, regulation of internal control and risk management plan and related offenses that define practices to be followed in financial management. There is internal standards for managing conflicts of interest arising from the law. Were fixed in respect of amounts included in the law, limits for authorizing payments for elected. Além addition, computerization allows you to monitor the various administrative actions, detecting irregularities.</p>	9.3
<b>II. Local taxation</b>		
<b>6. Local tax policy design</b>		
6.1. Local taxes should be based on the principle of fairness (R9)	<p>IMI combines well the principle of benefit and ability to pay. The increase in IMI resulting from re-evaluation of real estate property leads to an increase in tax revenue but this increase is limited to a certain amount in a transitional period. This increase has substantial benefits from an equity point of view.</p> <ul style="list-style-type: none"> <li>Small businesses have a lower rate of Derrama.</li> <li>The burden on citizens resulting from the change in the value of urban property has been recently diminished by a decrease in the rates of IMI over evaluated urban property.</li> </ul>	8.7
6.2. Local taxes should produce high yield (R9)	<ul style="list-style-type: none"> <li>Local tax revenues in percentage of current budget: 10.33% in 2011 and 11.75% in 2012.</li> </ul> <p>Regarding tax revenue, one can see a decrease of the total cost of coverage, by direct taxes between 2010 and</p>	5

	2012. In 2010, the taxes covered 21.1% of the total cost, while in 2012 the percentage was 18.97%. Between 2011 and 2012, there was a drop of 12.3% in terms of tax revenues. Staff costs accounting for roughly one third of the total charges, decreased by 12.4%. However, the total costs grew by 2.3% in the two years indicated.	
6.3. Real value of property tax yields should be preserved by effective administration and regular rises in tax rates	<ul style="list-style-type: none"> <li>Frequency of tax rate variation in IMI: rates of IMI were diminished in 2013 to be applicable in 2014.</li> <li>Frequency of property values actualization: Property values were updated in 2012 (nationwide). Evaluated urban real estate property has a lower interval of rates. So the increase in IMI revenue is influenced by these lower rates as well as by the fact that there is a limit of annual increase of IMI during a transitional period.</li> <li>IMI rates have been stable.</li> </ul> <p>It is considered that the level of Derrama, the definition of charges should have a longer period to create predictability in firms.</p>	7.5
6.4. Number of local taxes should be kept low (R12)	<ul style="list-style-type: none"> <li>Number of local taxes: 4 (IMI, IMT, Derrama, IUC). IMT is going to be extinguished till 2018.</li> <li>Changes in number of local taxes: No changes in the number of taxes, but substitution of taxes (Contribuição Autárquica was substituted by IMI; Imposto Automóvel was substituted by IUC, Sisa was substituted by IMT)</li> <li>Number of local taxes in percentage of total number of potential local taxes: Considering as potential taxes a tax on income and a tax with environmental purposes, 4/6 (66.6%). In the future it will be 3/5 (50%).</li> </ul>	10
6.5. Changes in level of local taxation should be adjusted to variation in local preferences and objectives (R11, R13)	<ul style="list-style-type: none"> <li>Level of local taxation depends on the value of tax bases and on the tax rates set by municipalities when the municipality has the capacity to do so. A major subject is the choice concerning collecting revenue from income or from property.</li> </ul> <p>In the municipality the decisions concerning this option are the following:</p> <ul style="list-style-type: none"> <li>Derrama: To benefit small business setting a lower rate of Derrama.</li> </ul> <p>The budget of the municipality of Beja has defined a strategy to balance the functions that the local authority is obliged to comply with the available resources and regulation of financial solvency, ensuring economic and financial sustainability of enterprises. The increase in tax revenues should accrue from improved economic activity, avoiding the imposition of an excessive burden to enterprises during the economic crisis. There is a concern with the recovery of old debts through settlement plans with debtors, and with the harmonization of benefits awarded.</p>	6.6
6.6. Changes in local tax framework should be made in a timely manner (R14)	<ul style="list-style-type: none"> <li>Date of approval of tax rates for the following fiscal year: IMI (May 14, 2012); Derrama (December, 17 2012); IRS (December, 17, 2012)</li> <li>Tax rates decided at national level: Approval of State Budget (Nov. 30)</li> </ul>	10

7. Tax Policy		
7.1. Local tax bands should be simple and fair (R18)	<ul style="list-style-type: none"> <li>There is no personal income tax at municipal level. But municipalities may decide to return up to 5% of collected revenue to residents.</li> <li>Small businesses pay a lower rate of Derrama.</li> </ul> <p>In terms of taxes levied on businesses, there is a Municipal exemption, and in companies with a turnover of less than € 150,000.00 per year 1% is applied, while in companies with a turnover exceeding € 150,000.00 / year 1.5% is applied. It is considered that at the corporate level, there should be a higher level between turnover and the exemption of micro-enterprises.</p>	10
7.2. Local taxes should be based on stable tax base (R20)	<ul style="list-style-type: none"> <li>The revenue generated by taxes with a stable tax base (IUC, IMI) represents 70.78% of total revenue from direct taxes. In three years, the revenue from these taxes went from 56% in 2010 to 70.78% in 2012 compared to total taxes.</li> <li>The basis for calculating the IMT is very unstable, and this tax will be eliminated by 2018. The revenue from this tax has been declining in the context of indirect taxes. Over the past eight years, revenues from IMT decreased significantly. The best year of revenue collection (2007) IMT generated about 2.8 million. The year 2012 was the worst of this period generating about 860 000 euro of revenue. The collection of this tax revenue has proved to be unstable. In 2010, it represented 31.63% of direct taxes, in 2011 26.17% and in 2012, its contribution was only 19.3%. Currently it represents no more than 10% of total revenue.</li> <li>Tax base of IMT is very unstable but this tax is going to be eliminated till 2018.</li> <li>Data bases with identification of tax payers are administrated by central government fiscal authorities. The municipality of Beja has information given by fiscal services of central government.</li> </ul>	10
7.3. Tax avoidance and evasion should be prevented (R18)	<ul style="list-style-type: none"> <li>The municipality reported that litigation tax boils down to foreclosures and processes of disputing charges filed by oil and gas companies for occupying the subsoil with nets.</li> <li>Moreover, in 2012, there are 204 cases related with defaults in collecting local taxes, while in the previous year there was 254 open cases. The lawsuits filed in 2012 relate to € 949,493.71 debt to the municipality, have been recovered around € 24,278.93. The proceedings initiated in 2011 relate to approximately € 790,486.71 debt, having been recovered € 15,882.05.</li> </ul>	10
7.4. Quality of tax regulations should be improved (R18)	Given the information provided, it is considered that there should be a further simplification, with results in terms of time and cost to the municipality. There should also be shown the results of litigation, disputes, delays. The creation of a control unit and audit could reduce this gap in the management of tax processes.	3.3
7.5. Information on tax base should be updated and has to be founded on legally available	<ul style="list-style-type: none"> <li>Shared information bases by various units of local administration: NO</li> <li>Local cooperation with horizontal partners on information (e.g. police, utility companies): YES.</li> <li>Cooperation with higher authorities collecting information, relevant for local tax administration national tax</li> </ul>	8.7

sources (R19)	office, business registry, cadastre, vehicle registration: YES According to the municipality, no information is shared in common databases between local government entities. It is considered a good practice the sharing of data and information that will benefit the entities involved. In tax matters, such shares would be relevant to detect potential fraud and errors.	
7.6.Reserves should be set aside for litigation (R24)	In 2012, 204 cases were filled related with defaults in collecting local taxes, while in the previous year there was 254 open cases. The lawsuits filed in 2012 relate to € 949,493.71 debt to the municipality, have been recovered around € 24,278.93. The proceedings initiated in 2011 relate to approximately € 790,486.71 debt, having been recovered € 15,882.05. Given the information provided, it is considered that the results of litigation, disputes, delays should be more visible.	7.5
<b>8. Information and Publicity</b>		
8.1.Local tax policy should be designed in an open, transparent way (R10)	<ul style="list-style-type: none"> <li>Publishing, posting draft tax policies: YES, according to national legislation.</li> <li>Disseminating drafts on local tax policy options: Only internally.</li> <li>Documents justifying local tax decisions should be transparent: public hearings; Financial and Economic justification of indirect taxes and users charges.</li> </ul>	8.7
8.2.Information and explanation on local taxes and tax regulations should be made public (R15, R17)	<ul style="list-style-type: none"> <li>Means of information sharing (electronic, posters, direct mailing, telephone): All of them.</li> <li>Public hearings and consultation before and after the tax regulations are approved: YES.</li> <li>Citizen charter on local indirect taxes and user charges (availability, quality): YES, good quality.</li> </ul> <p>In this regard, although the municipality complies with the disclosure requirements of administrative decisions, it is considered that a job can be made more consistent through the use of new media that allow a more significant range in terms of recipients. The meetings and chamber assembly have not shown significant public participation, so the municipality must, in part already in operation, create ways of deepening the relationship between elected and elector. It is recommended the creation of the Charter of Citizens' Rights to present the obligations of the administration and taxpayers in a clear and concise manner.</p>	8
8.3.Public information on use of local tax revenues should be comprehensive, understandable (R16)	<ul style="list-style-type: none"> <li>Evaluation of the reporting on the implementation of local budgets: In the homepage of municipality. The information is clear and precise.</li> <li>Reporting on earmarked local taxes: not applicable.</li> <li>Public information by types of major local taxes: DR; site of the municipality, media.</li> </ul>	10
<b>9. Tax Administration</b>		
9.1.Tax registration and timely collection should support smooth cash flow (R21)	<ul style="list-style-type: none"> <li>Direct taxes are administrated by Central Government fiscal services.</li> <li>Delays and unpaid indirect taxes and user charges are followed by the tax information system: YES.</li> <li>Notification, warning practice on non-payments of indirect taxes and user charges are in place: YES.</li> <li>Internal legal procedures for non-payment are regulated and publicly known: YES.</li> </ul> <p>The relationship between administration and the citizen: the municipality of Beja is preparing the creation of the Citizen's Ombudsman, which will aim to deepen public participation.</p> <p>The city has been conducting sessions in all parishes, particularly in rural parishes-oriented, in order to understand the main problems of the local population, as well as promoting information about the activity of the chamber. Such meetings, joining the elected parish councils, enables feature the most relevant economic entities, social and cultural rights of those administrative units. These sessions aim to meet the principle of streamlining and efficiency.</p>	10
9.2.Tax administration should be simple: few formalities, least administrative efforts by tax payers (R22)	<ul style="list-style-type: none"> <li>Public information on local tax regulations: Available. See items above.</li> <li>Billing: timely call for tax payment: YES.</li> <li>The Municipality has a regulations code (<i>Código Reglamentar</i>) easily accessible by taxpayers.</li> <li>Diverse forms of payment: Yes. Modern forms of payment are available.</li> <li>The municipality has integrated front desk services (<i>Office service</i>)</li> </ul> <p>The Municipality provides public information about regulations, which does not invalidate the realization of actions to raise awareness of a better knowledge of the explicit calculation of fees and costs of services. This approach may facilitate the relationship between the user and administration. Currently, the city allows the debts can be paid in various forms, such as installment payments against the debt being larger than the current conditions of the citizens.</p>	10
9.3.Payment demands should provide information on tax levies (R23)	<ul style="list-style-type: none"> <li>Compulsory elements of local tax claims:</li> <li>identification of taxpayer (property owner) : YES.</li> <li>tax base, exemptions: YES.</li> <li>tax rate, amount due: YES.</li> <li>deadline for payments: YES.</li> <li>forms of payment: YES.</li> <li>consequences of delay or non-payment: YES.</li> <li>options for appeal: YES.</li> </ul>	10

	The site of the Municipality contains information on the basis of calculation, payment terms, exemptions.	
9.4.Easy payment systems (R23)	<ul style="list-style-type: none"> <li>• Availability and use of various forms for paying local taxes:</li> <li>• Personal, through cashier: YES.</li> <li>• Bank transfer: YES.</li> <li>• Checks: YES.</li> <li>• Other: ATM.</li> </ul> <p>Besides the check and cash payments, the municipality enables electronic payment mode and home banking. There is a form of electronic invoice for the payment of rent and water supply service. The process of administrative modernization underway in the city of Beja has streamline procedures in order to make the relationship between the user and administration more friendly, reducing waiting times and increasing the quality of service, for example by passing the act of convenience payment.</p>	10
9.5.Complaint procedures should be clear (R23, R24))	<ul style="list-style-type: none"> <li>• Direct Tax administration is assured by Central Government fiscal services</li> </ul>	NA
<b>10. Tax system audit</b>		
10.1.Comparing collection costs with tax revenues	<ul style="list-style-type: none"> <li>• See 6.2.</li> </ul>	10
10.2.Tax coverage: identification of tax payers and collection rate	<ul style="list-style-type: none"> <li>• Regular update on tax payer registry: YES for indirect taxes and user charges payers.</li> </ul> <p>The articulation between the Tax Authority and the municipalities allows access to such information at the intersection of fiscal data. In addition, the City has mechanisms which emphasize the community-oriented statistical information on the percentage of complaints, lawsuits pending civil cases. A logic of transparency and information to the community (users, companies and institutions), it is recommended that the treatment of tax and financial information in a clear and continuous in time. This type of information allows you to track the activity of the municipality and to encourage participation.</p>	10
<b>III. Fees, charges and miscellaneous revenues</b>		
11.1.User charges should not exceed service costs (no profit on paper) (R26)	<ul style="list-style-type: none"> <li>• User charges have to be justified by a financial and economic study where it is demonstrated that user charges are proportional to benefit of municipal services and costs of provision by the municipality.</li> </ul>	10
11.2.Charges should not reduce demand for services excessively (R27)	<ul style="list-style-type: none"> <li>• Local policy preferences are reflected in average charges, exemptions and subsidies: YES.</li> <li>• Pricing methods follow local policy goals: charges by block of consumption, classification of users: YES.</li> <li>• External impact of charge increase: changes in illegal dumping of waste, illegal connections to water system, water unaccounted: YES</li> </ul> <p>Charges and fees must be proportionate, not intended to reduce or moderate the demand for public services. The municipality takes care to manage the sustainability of services through proportional rates. There are mechanisms to positively discriminate families with economic need. It is recommended that evidence of internalization of costs to the level of rents techniques, exemptions and subsidies in order to better understand the citywide effort in social matters.</p>	10
11.3.Choice between charges or local taxes should be made explicit (R28)	<ul style="list-style-type: none"> <li>• Local policy preferences are reflected in the proportions between local taxes and user charges: The influence of the municipality is done through the rates of direct taxes that the municipality can set and the level of indirect taxes and user charges.</li> <li>• User charges are preferred for services with a <ul style="list-style-type: none"> <li>- measurable output: YES</li> <li>- visible benefit: YES</li> <li>- easily identifiable user: YES</li> <li>- alternative service providers: YES for prices (tariffs)</li> <li>- measurable costs: Yes for user charges and prices.</li> <li>- manageable collection of user charges: in some cases the revenue is small compared to costs of collecting taxes.</li> </ul> </li> </ul> <p>The municipality of Beja has information available on its website, such as the general table of municipal charges (Tabela de Taxas e Preços), which incorporates a study of economic and financial reasons, intending to identify the costs incurred by the municipality of Beja in the provision of services to citizens in order to technically support the decisions the local authority in respect of fees to be fixed by the municipality with reference to December 31, 2007, in order to comply with legal requirements approved by the Law no. 53-E/2006 of 29 December.</p>	8
11.4.Access to	Pricing methods reflects social policy goals (partial costs pricing): YES.	



essential services by disadvantaged groups should be preserved (R29)	<ul style="list-style-type: none"> <li>Subsidies for service users financed through charges are in place: YES.</li> <li>There are mechanisms in the county to support disadvantaged groups access to a range of municipal services, in the form of subsidies and exemptions.</li> </ul>	10
11.5.Exceptional revenues should finance capital revenues (R31)	<p>Windfall revenues are separated in local budget: YES.</p> <ul style="list-style-type: none"> <li>Own source capital revenues are used only for capital expenditure: YES</li> </ul> <p>Extraordinary revenues are disclosed in the budget of the Municipality, the capital revenue may be used to finance capital expenditure. It is recommended that information be extracted from the GOP to deal with these indicators, readable by people without specialized knowledge.</p>	10
<b>IV. Capital budgeting financing</b>		
12.1.Local capital investments are managed effectively	<ul style="list-style-type: none"> <li>appropriations on capital expenditures are separated in the local budgets: YES.</li> <li>capital investment projects are completed within the forecast budget: YES.</li> <li>large capital projects, constructions are finished on time: YES.</li> </ul>	10
12.2.Capital expenditures are funded by diverse sources of local revenues	<p>Capital Expenses are expenses that the City performs on durable goods (schools, bridges, roads, social facilities, etc.). These expenses are provided by the local authority budget itself, being counterbalanced by Community co-financing municipal investments can benefit from rates of 85%, reducing the effort of the municipality. Highlight that in the current financial programming period, the level of the NSRF, the municipality of Beja has intervened in the field of school facilities, improvements in network public water supply, improvement of municipal roads, benefiting from EU funding. The municipality may appeal, under approval by the Assembly, the capacity to borrow under the law. The level of community projects, may appeal to the European Investment Bank. An important source of revenue stems from funds transferred under the State Budget.</p>	10
12.3.Debt service costs are covered by estimated surplus of revenue over operational costs	<ul style="list-style-type: none"> <li>funds available from the general municipal budget: NO</li> <li>revenues (fees, charges) accruing from the assets created: YES</li> </ul>	5
12.4.Short term loans finance cash flow deficits within the fiscal year	<p>The Municipal Assembly approves or authorizes the issuance of debt under the law, under City Council proposal. This option should be always accompanied by information on the conditions applied in at least three credit institutions as well as the map statement borrowing capacity of the municipality.</p> <p>The site of the municipality of Beja, in the part related to financial information, presents a framework identifying the borrowings, characterization, date of approval by the Municipal Assembly, maturities, interest rates (initial and current), capital, depreciation, interest, outstanding debt.</p>	10
12.5.Borrowing complies with limits imposed by the national legislation	<p>The municipalities are covered by borrowing limits of medium and long term municipal and liquid under the provisions of art. 98 of the State Budget for 2013. In accordance with the legal rules, the limit of indebtedness of each county for 2013, in order to ensure an overall change in net debt municipal null as a whole, is the lower of the following values:</p> <p>a) Limit of indebtedness, 2012;</p> <p>b) Limit resulting from paragraph 1 of article 37 of Law no. 2/2007, of January 15, as amended by Laws No. 22 - A/2007 of June 29, 67-A / 2007 of December 31, 3 -B/2010 of April 28, 55 -A/2010 of December 31, 64 -B/2011, December 30, and 22/2012 of 30 May .</p> <p>The celebration of new medium and long term loan contracts is limited to the amount resulting from the apportionment of the total amount of depreciation made by municipalities in a given year in proportion to the debt capacity available to each municipality.</p> <p>There are exceptions to this limit, particularly for investments in the context of the NSRF and urban rehabilitation and loans provided by the European Investment Bank (EIB).</p>	10
<b>V. Local property</b>		
13.1.Local governments keep records of their own assets and liabilities.	<ul style="list-style-type: none"> <li>municipal balance sheets are annually prepared: YES, every three months (sent to Central government/DGAL) and annually (<i>Relatório e Contas</i>).</li> <li>report on local assets is based on inventories, audited information sources: YES. The municipal has audited accounts.</li> <li>value of local non-financial assets is regularly updated : YES using the requirements imposed by POCAL (accounting system for local governments).</li> <li>complete inventories of direct and indirect (contingent) liabilities: YES</li> <li>consolidated local government balance sheets are publicly available: YES, in paper and in the site of the municipality.</li> </ul>	10
13.2.Organisational forms and rules of asset management are	<ul style="list-style-type: none"> <li>clearly regulated decision making powers on sale, use and charging of municipal assets: YES in "<i>Código Regulamentar</i>" and "<i>Tabela de Taxas e Preços</i>".</li> </ul>	10



transparent	<ul style="list-style-type: none"> <li>effective local government control over the municipal asset management organisation: YES, the municipality has software with registry of assets.</li> </ul>	
13.3.Local Governments keep control of strategic property	<ul style="list-style-type: none"> <li>Water supply is assured by EMAS - Empresa Municipal de Água e Saneamento de Beja, EM</li> <li>The municipality of Beja participates in the capital of EXPOBEJA - Park Management Company of Fairs and Expositions de Beja, EM, which should be closed, assuming the municipality and ACOS management of that park.</li> <li>The municipality of Beja has the INOVOBEJA - Municipal Enterprise Development, EEM, which is a business entity hall. Its primary area of intervention is the area covered by the Plan Partial Urbanization Central - Core Historic City of Beja, although occasionally may intervene in other areas, particularly in the management of programs to support regional development and implementation of EU funds.</li> <li>Residual treatment is assured by AMALGA</li> <li>Services provided by PPP: NO.</li> <li>Other contractual agreements: NO</li> <li>The municipality did not anticipate revenues by selling strategic property.</li> </ul>	10
13.4.Regulations on Municipal companies ensure their long term financial stability	<ul style="list-style-type: none"> <li>Compensations to municipal enterprises are regulated by contracts. YES</li> </ul> <p>The contract management services to medium term and their specifications define the annual performance of the service, the level and method of compensation, the prices to be charged, sustainability strategies.</p> <p>In the contact between EMAS and the municipality of Beja the terms are defined as to services provided, objectives and compensations.</p>	10

**Benchmarks of financial management of local and regional authorities: local authorities**

SECTION and AREA (with reference to the number of Recommendation)	EVALUATION FOR BEJA	SCORES 0-10
<b>I. Sound budgeting and fiscal planning</b>		
<b>1. Fiscal strategy design</b>		
1.1.Overall financial framework of multi-year budget (R.45)	<ul style="list-style-type: none"> <li>Municipal budget accounts for macroeconomic scenarios: YES</li> <li>Clear connections between local policies, strategies and budget items establishes the accountability: YES</li> <li>The changes of overall budget cap fit into the macroeconomic framework and accepted by the local policy objectives. YES</li> </ul> <p>The 2013 Budget of the municipality of Beja considers the recessionary effects of the crisis in terms of a decreased revenue.</p>	10
1.2.Multi-annual budget plans (R.45)	<ul style="list-style-type: none"> <li>The precondition of balanced annual budget is the multi-annual plan, which aligns the resources and service levels: YES.</li> <li>Multi-annual plan does not plays only a formal role it does not have strong managing power. It considers the future consequences of financial decisions on an accrual basis: YES</li> </ul>	8
1.3.Budget strategy debate (R.73.)	<ul style="list-style-type: none"> <li>Discussion of executive level</li> <li>Discussion at Municipal Assembly Level.</li> <li>Room for an increase in the participation of citizens in this debate.</li> </ul>	8.7
1.4.Zero Base Budgeting	The rules of good financial management requires the application of the principle of a balanced budget, ie, the budget provides the necessary resources to cover all expenses, and current revenues must be at least equal to current expenditure.	10
<b>2. Budgeting methods and capacity</b>		
2.1.Technical capacity in budget preparation procedure. (R. 46., 57., 58.)	<ul style="list-style-type: none"> <li>The number of participating departments, including the nature of their work: all the services present budget proposals.</li> <li>Budget preparation is supported by all type of local professional capacity: YES</li> <li>The budget preparation is the most powerful tool to discuss and select the best solutions of service delivery: YES</li> <li>Comparisons are used to justify the appropriate changes in figures, comparing the former performances, according to the objectives: There a strong orientation to cuts in the budget.</li> <li>Broad involvement of staff: all services are involved and in the financial services a task force to prepare the budget is constituted.</li> </ul> <p>The budget preparation is an important time of municipal activity where technical resources are mobilized. There is involvement of all departments, divisions and sections. It is recommended the involvement of all employees through proposals for improving services.</p>	10
2.2.Nature of voting units (R. 47.)	<ul style="list-style-type: none"> <li>The ceiling and objectives of voting units are clear enough to implement the expected outputs; and their quantity and quality are measured: Yes, together with the orientations to elaborate the budget by each service.</li> <li>Without the appropriate decisions by commitment type changes on voting unit is prohibited. (R. 50.): Yes according to POCAL and Local Finances Law.</li> <li>Clear structure of voting units keeps track of the budget implementation and service performance: There is a structure responsible for budget control and it is available software of budget control.</li> </ul>	10
2.3.Analytical sheets make the budget transparent (R. 47.)	<ul style="list-style-type: none"> <li>The system of connected budget sheets supports the understanding of the budget, providing different dimensions of the data: YES.</li> <li>The objectives of using more dimensions and cross-references to serve information for decision making, and with the same figures to set up the obligations for budget implementations, according the implementation rules: YES.</li> <li>A structured set of analytical budget helps to understand better the power of budget planning: YES.</li> </ul>	10
2.4.Explanations of performance (R.54)	<ul style="list-style-type: none"> <li>Budgeting and output data and information on performances explain fiscal objectives: YES.</li> <li>An agreement between elected members and officials on the performance indicators is the starting point to improve service level: there is an integrated view of strategic goals for the municipality, strategic goals for the services, goals for civil servants and service performance indicators and civil servants performance evaluation (SIADAP).</li> <li>Performance monitoring focuses on the public money to deliver the expected outputs: YES</li> </ul> <p>SIADAP the city of Beja is linked to the budget, to the extent that the realization of the objectives of the micro-level influence the macro-level objectives. The objectives and indicators are agreed between the entity and employees in order to improve the quality of care and service.</p>	10
2.5.Satellite agencies in the budget	<ul style="list-style-type: none"> <li>The scope of local budgets fits into national framework, and it does not include prohibited</li> </ul>	

proposal. Rules of consolidations of accounts (R. 61.)	<ul style="list-style-type: none"> <li>items: YES.</li> <li>Based on the central rules, the nature of local bodies is identified and the coding system for classification exists: Budget preparation follows the general norms applicable to local governments.</li> <li>The proper classes of bodies are the precondition of proper consolidation of financial data: financial data is consolidated with enterprises when the municipality has a majority of capital.</li> </ul>	10
2.6.Financial reserves for risk management (R. 63., 64., 65., 67., 68., 69.)	<p>The framework of sound financial system and risk management exists. It includes:</p> <ul style="list-style-type: none"> <li>rules to sort risks, which subject to predefined financial reserves: YES</li> <li>rules to sort risks, which, maybe need some insurance: YES</li> <li>The structures, figures to present risky items, loans guarantees, etc, in the budget documents exist: YES</li> </ul> <p>The documents must contain a solid forecast financial risk management, the definition of eligibility criteria, rules for risk management and provision coverage rules for risk management and insurance cover. The team responsible for monitoring the implementation of the budget is responsible for monitoring and continuous monitoring system. The municipal executive is systematically informed of the progress of budget implementation, compliance and loan payments to suppliers.</p>	10
<b>3. Budgeting procedures</b>		
3.1.Involvement of elected bodies (R. 49., R.74)	<ul style="list-style-type: none"> <li>Level of understanding of budget objectives by the elected bodies: High</li> <li>Appropriate procedures exist: <ul style="list-style-type: none"> <li>- raising questions: YES.</li> <li>- avoid conflict of interest, carrying out lobbying and anti-corruptions; The municipality has an anti-corruption plan.</li> </ul> </li> <li>Local representatives understand the consequences and future impact of their decision, their influence on the service level: YES, but no evidence is presented.</li> <li>Training is organized to increase awareness of this dimension by local representatives.</li> </ul> <p>In preparation of the Budget and Business Plan, the City of Beja met with the Parish Councils of the county for proper programming of works and investments made in the parishes seeking to meet the most pressing needs of the population.</p>	8.4
3.2.Independent opinion on proposal	<ul style="list-style-type: none"> <li>It helps the proper budget debate. Some special considerations need special professional knowledge: When needed, the municipality seeks independent opinions, specially on legal matters.</li> <li>Independent opinion helps to make it sure, that the main decision of local authorities are proper balanced and well prioritized: YES</li> <li>After delivering independent opinion the elected members need more time to consider it: YES.</li> </ul>	8.7
3.3.Separate debate and adoption of complex, major investment projects or other significant programs (R. 50.,59., 71.)	<ul style="list-style-type: none"> <li>Decision procedure of regular complex programs (IT programs, reforms, changing structure, etc.) which are subject to separate decision: YES</li> <li>Procedure exists to involve citizens to identify significant investment projects: YES. The municipality has a participatory budget.</li> </ul> <p>The municipality of Beja implemented a Participatory Budget within the Budget for 2014. 800 citizens have participated in this initiative. The citizens presented ideas and concerns to answer needs in the county. Decisions on the projects were taken by the executive council. This methodology involves citizens in the identification of significant investment projects, approaching voters to the elected bodies.</p>	10
3.4.Outsiders' contribution helps accountability (R. 55.)	<ul style="list-style-type: none"> <li>Occasional and/or regular procedures: municipal assembly</li> <li>Local rule sets up the obligation to consult regularly with the social partners, citizens: NO.</li> <li>An open forum exists to collect citizen contributions: YES.</li> <li>Regular consultancy supports autonomy: YES.</li> </ul> <p>The municipality of Beja meets informally a set of entities that assume an advisory and decision support. Created a parallel Economic and Social Council, which meets regularly with organizations and personal representatives of the civil society, whose purpose is to discuss and support local elected officials in their decisions.</p>	7.5
3.5.The timeframe of budget debate by elected bodies	The budget preparation follows a set of stages: preparation of the proposal of municipal budget; period of public consultation - Participation Questionnaire to collect suggestions and project prioritization, evaluation of the suggestions of the citizens, after approval by the City Council, the final vote on the proposed budget in the Assembly Hall.	10
3.6.Openness of budget documents (R.52, R. 56.)	<ul style="list-style-type: none"> <li>Information, minutes of meetings, publication on internet: YES.</li> <li>Leaflets, which present the main objectives, figures, graphs: YES.</li> <li>Public hearing, as part of budget debate: YES</li> </ul>	10
<b>4. Fiscal policy objectives</b>		
4.1.Cost saving	In the municipality of Beja there is a monthly monitoring of costs, in order to detect deviations from	

strategies are adopted and sustained	the designed. Costs with Personnel have been declining since 2010, representing 37.5% of the costs in total costs. In 2011, there was a slight increase in the cost with Personnel, representing 38.6% of the total. In 2012, staff costs accounted for 33.1% of the total. The reduction in personnel expenses was a result of a very careful management of the entrances and exits of civil servants, in order to comply with the obligations of the municipality with the Act of Commitment.	10
4.2.Cutbacks in payroll expenses should limit redundancies	There was a reduction of the workforce, and between 2011 and 2012, the staff went from 523 to 499 employees, which represented a decrease of 4.54%. If we include the number of workers who serve in the city, which include forward contracts, covenants and stages, the number of employees moved from 566 to 518, representing a decrease of 8.48%. Despite this decrease, the City has sought to meet their obligations in various areas, particularly in the social area.	10
4.3.Support to non-governmental organisations providing community services to vulnerable groups should be protected during restrictions	<ul style="list-style-type: none"> <li>municipal services contracted to community, non-profit organisations: NO</li> <li>grants and subsidies provided to NGOs for local services: YES</li> </ul> <p>There is a range of support and grants to non-governmental organizations that provide community services to the most vulnerable groups of society. These financial benefits are discussed in public documents, in order to ensure transparency of the criteria for awarding grants.</p>	5
4.4.Cooperation with other local authorities (R.70)	<ul style="list-style-type: none"> <li>The level of cooperation and cost sharing to improve the efficiency and effectiveness (both to vertical and horizontal direction.): YES, with municipal enterprises</li> <li>Cooperation within Intermunicipal Community: YES</li> <li>Cooperation concerning the acquisition of goods and services: NO</li> </ul>	6.6
4.5.Adjoining authorities share administrative and professional resources	<ul style="list-style-type: none"> <li>declared objectives of inter-municipal cooperation: YES, through Intermunicipal Community</li> <li>local governments cooperate for providing basic services and improving service quality: YES.</li> <li>scope of technical (utility, communal, transportation) services organized in cooperation: Culture, Transports, Technology, IT and Social Cohesion.</li> <li>joint purchases of goods and services: NO</li> <li>use of electronic procurement for buying goods and services: YES</li> </ul>	8
<b>II. Special rules of budget adjustments and implementation</b>		
5.1.Regular evaluation keeps track of budget implementation (R.76., 77.)	<ul style="list-style-type: none"> <li>Mid year evaluations, quarterly monitoring reports make a regular supervision of implementation: YES, daily control of budget appropriations, monthly control of revenue and expenditures.</li> <li>They provide opportunities to decide adjustments, when necessary: YES. With the analysis of available funds adjustments are introduced in the projected revenue and the projected expenditure.</li> </ul>	10
5.2.Local framework of supervision, monitoring and reporting system set up to audit budget implementation (R .80., 83.)	<ul style="list-style-type: none"> <li>The approved budget, the report and statements about implementations together establish the framework of accountability: YES.</li> <li>The final report is made in the same structure as the budget: YES.</li> <li>Appropriate explanation on budget implementation exists, highlighting the causes of differences: YES, with a very detailed explanation of deviations.</li> </ul>	10
5.3.Independent opinion on final reports and financial statements. (R.83)	<ul style="list-style-type: none"> <li>Independent opinion (external audit) helps the elected members to trust in the submitted final reports and in the correctness of financial statements: YES</li> <li>If external auditor fails to certify the statements, it means that serious problems were found, which could mislead the decision makers: YES.</li> </ul>	10
5.4.Budget adjustment during the year is limited. (R. 78)	<ul style="list-style-type: none"> <li>It is predefined when budget adjustment is necessary:</li> <li>Too frequent adjustments create uncertainty: YES, in the municipality usually there are 3 and 4 budget adjustments during the year.</li> <li>Too frequent adjustments make too bureaucratic decisions, which could overwrite the original objectives.</li> <li>Too frequent adjustments are against the transparency, because the subject can avoid the proper budget debate.</li> </ul>	10
5.5.Relations between the local government and its subsidiary organisations are regulated by transparent agreements	<ul style="list-style-type: none"> <li>local government and service organisations' finances are clearly separated: YES.</li> <li>performance of services rendered are specified in written contracts: YES.</li> <li>sources of funding contracted services are specified annually (user charges, municipal subsidies, loans, etc.):YES.</li> <li>information on the municipal service contracts is accessible by the general public within the framework of the national legislation: YES. through request.</li> </ul> <p>The municipality of Beja, in order to promote cultural associations, sport and recreation, has transferred to nonprofit organizations or public interest, its heritage, which is regulated by contract. The maintenance and repair of the goods are defined in the contract. Beneficiaries should pursue a set of social purposes for the community.</p>	10

5.6. Local government service contracts cover asset management and social issues	<ul style="list-style-type: none"> <li>regulations on the use of municipally owned assets by service organisations are covered by the contract: YES.</li> <li>responsibilities for operation, maintenance, repair and reconstruction of transferred assets are specified: YES.</li> <li>local governments receive compensation for their assets used by contractor: YES.</li> <li>low income users of municipal services receive targeted social benefits: YES</li> </ul> <p>The municipality of Beja, in order to promote cultural associations, sport and recreation, has transferred to nonprofit organizations or public interest, its heritage, which is regulated by contract. The maintenance and repair of the goods are defined in the contract. Beneficiaries should pursue a set of social purposes for the community.</p>	10
5.7. Local service management should be made efficient	<ul style="list-style-type: none"> <li>service performance measurement system is in place: YES</li> <li>outputs of municipal service provision are regularly assessed: YES</li> <li>unit costs of services are evaluated : YES</li> <li>service efficiency is a key target indicator for the service organisation and its management: YES</li> </ul>	10
5.8. Local government financial operations are made transparent	Internal procedures are subject to public scrutiny online, however, by consulting the accounts of the municipality, you can access the various acquisitions of goods and services and through <i>plataforma electronica</i> certified. Internal procedures are audited by the auditor, the General Directorate of Local Government Inspection General of Local Government, General Inspection of Finance, Court of Auditors, to ensure that the procedures adopted.	5
5.9. Municipality should not do over-budgeting	Procedures adopted to avoid over-budgeting: POCAL procedures with additional coefficient of prudence when revenue is decreasing. The Local Finance Law establishes the legal entities must comply with rules of budgetary and municipal debt, which should be guided by principles of accuracy and efficiency. Accounting procedures should be transparent and allow for audit trails. Internal audit is an audit function and control of expenditure. Built-in accounts are compulsorily audited by an external entity. By Act of Commitments and Payments Overdue accounts of municipalities were audited and corrected situations budgeting.	10
<b>III. Special control, supervision on activities</b>		
6.1. Framework and role of internal audit (R.82., R 84.)	There in the Municipality an Office of Internal Audit. It is considered relevant to organize a pool of roles and functions in order to create a new cabinet with autonomy to internally audit the accounts of the Municipality.	6
6.2. Special consideration have to guarantee PPP projects (R.72.)	<ul style="list-style-type: none"> <li>NOT APLICABLE</li> </ul> <p>The public-private partnership is a form of investment support, which has the legal framework of public-private partnerships, which have slight adjustments to the municipal reality. The municipality of Beja has no public-private partnerships.</p>	NA
6.3. Prudent commercial links. (R.60)	<ul style="list-style-type: none"> <li>Portuguese municipalities fall into their activities in a number of areas, without a commercial link.</li> </ul>	10
6.4. Criteria of usage external consultants.	<ul style="list-style-type: none"> <li>Internal team work on the project, but some special professional knowledge is needed or it is better, if an independent leads the work: YES</li> <li>The topic, the subject of knowledge or efficiency is the reason the outsourcing the activity: YES.</li> <li>Proper internal debate to make the decision: YES.</li> </ul> <p>The municipality of Beja has a staff with experience and endowed with skills in the areas of municipal management, although occasionally for certain very specific issues (namely informatics and legal issues) outside consultants are needed, and working in close collaboration with the executive council and internal resources. In the financial and fiscal areas, given its centrality in the organization, more internal specialized resources are needed. This gap has been bridged with external consultants.</p>	10
6.5. Procedure of situation in financial difficulties (R85., 86., 87.)	<ul style="list-style-type: none"> <li>Procedures defined in the Law of Local Finances.</li> </ul> <p>The implementation of the budget implies careful monitoring related with the decrease in revenues or expenses not initially considered. The executive of the municipality of Beja performs a systematic monitoring, analyzing different time periods, which allows a better allocation of expenditure and revenue, in compliance with their obligations. The Municipality has established a set of standards published in its financial management system, which allows to predict and manage such situations. Annually, it publishes a normative document for the budget execution.</p>	10

## Annex 3

### Local finances and financial management in Porto.

Porto is the second most important city of Portugal. With 237,591 residents, Porto is located in the littoral of the North Region of Portugal and it is the centre city of the Metropolitan Area of Porto. It spreads across 41.4 square kilometers and has a population density of 5,736 residents per square kilometer.

The county of Porto has the second highest purchasing power index in Portugal (178.8). In 2010, 37,686 enterprises were located in Porto with a turnover of 15,122,822 euro. Porto is the location of the largest and highest ranked Portuguese university (Universidade do Porto). The historic center is classified as UNESCO world heritage and in 2001 it was, together with Rotterdam, European Capital of Culture. Porto has been classified by major travel analysts as one of the best tourism destinies in Europe.

In 2012 the Municipality of Porto had a budget of more than 178 million euro. In May 2013 the Municipality of Porto had 2,556 collaborators. In the last 12 years the Municipality of Porto has been recognized by analysts by its sound financial management and in special by its capacity to reduce municipal debt.

Table 1. Fiscal position in 2011

	Fiscal revenue as a % of total revenue	Own revenue as a % of total revenue	Per capita fiscal revenues	Per capita own revenues	Per capita expenditures
Porto	52.4	75.6	423.50 € €	607.29 €	782.90 €
Portugal	30.8	46.8	232.15 €	344.16 €	730.92 €

Source Contas de Gerências, DGL. Receita cobrada e despesa paga.

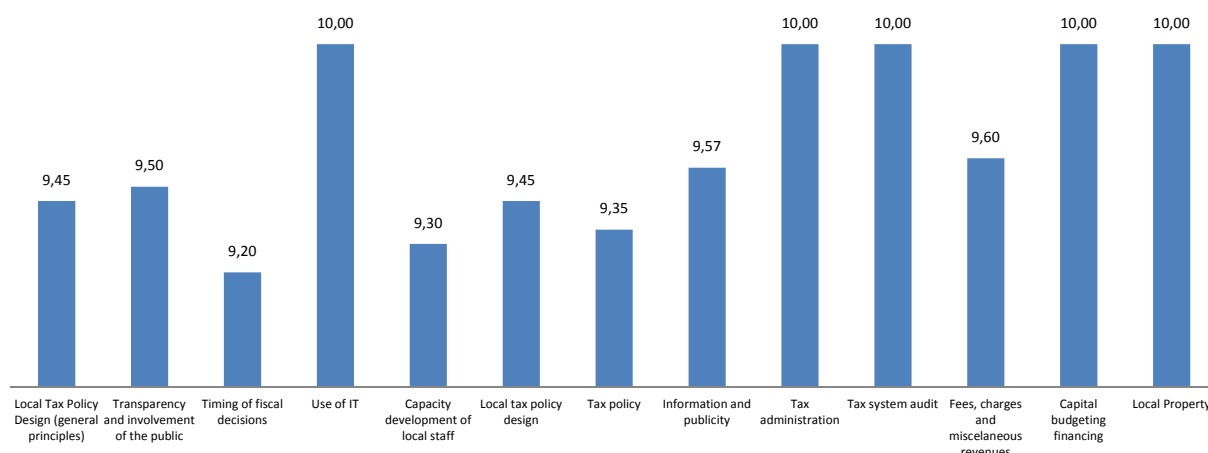
### Concluding Remarks and Recommendations

In summary scores, the municipality of Porto reached a total score of 764.8 for a total maximum of 800, which on average represents a value close to 9.56 points.

Indicators with financial resources reach 443.4 points while the indicators of financial management come to 321.4 points. However, since the analysis items are different 46 and 34 respectively the average achieved is almost identical (9.64 and 9.45 respectively).

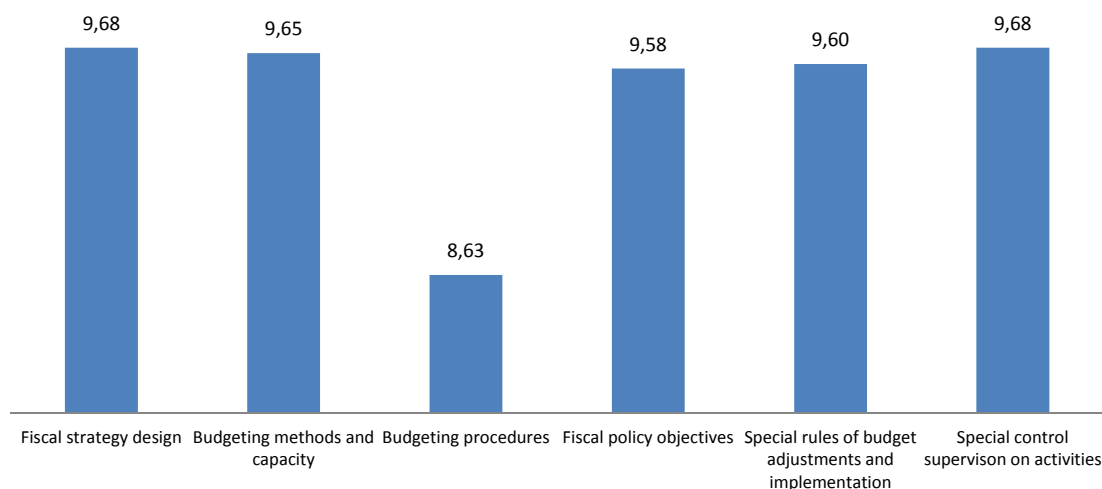
### Benchmarks of financial resources of local and regional authorities

**Average score Porto**



### Benchmarks of financial management of local and regional authorities: local authorities

**Average score Porto**



## Annex 4

### Benchmarks of financial resources of local and regional authorities:

General principles of local fiscal policies	EVALUATION FOR PORTO	SCORE
<b>1. Local tax policies design</b>		
1.1. Local revenue policies should be approved by elected bodies (R1)	<p>In Portugal Municipalities have patrimony, financial autonomy and the capacity to define their own regulations within the limits set by national legislation.</p> <ul style="list-style-type: none"> <li>The Municipal Assembly approves the rates of IMI and Derrama within an interval of rates set by national legislation. For the municipal taxes IMT (tax on transactions of urban property), and IUC (tax on vehicles) the rates are already defined by national legislation</li> <li>The Municipal Assembly approves the percentage of income tax revenue (IRS) collected from residents that revert to the municipality up to 5%. If the municipality approves a percentage less than 5%, local residents will be benefited.</li> <li>The Municipal Assembly approves user charges (<i>Taxas</i>). These have to be in proportion with the benefit of users and costs of the services and goods provided.</li> <li>Municipal Council (Câmara Municipal) approves prices (in general, prices have to cover the cost of services provided by the municipality).</li> </ul>	10

	<ul style="list-style-type: none"> <li>The Municipality can obtain credit within the limits set by national legislation.</li> <li>Municipal Assembly can approve subsidies, exemptions and tax reliefs according to Local Governments Finances Law and <i>Código Regulamentar</i> of the Municipality.</li> </ul>	
1.2. Impact assessment of local revenue policies should be made public (R3)	<ul style="list-style-type: none"> <li>Public access to local budget documents in the Municipality: Yes, after the decision of the Municipal Assembly.</li> <li>There is the possibility of Participatory Budgets in the municipality: Yes, but the municipality of Porto has not implemented this mechanism, yet.</li> <li>The budget is presented in the following ways: in paper and in digital form</li> <li>Dissemination of information on the budget: information sent to public entities according to national legislation and also available in the site of the municipality.</li> <li>The impact assessment of local revenue policies is done in the following documents: economic and financial study to set user charges; public hearing of <i>Regulamentos</i> setting user charges and in other cases according to national legislation; hearing of entities affected by projects of <i>Regulamentos</i>; studies of quality and satisfaction of users of municipal services.</li> </ul>	9.2
1.3. The mix of local revenues from income and property of business enterprises and persons/residents should be balanced.	<ul style="list-style-type: none"> <li>In Portugal municipalities collect revenue from income (IRS, Derrama) and from property (IMI, IMT and IUC). In Porto, in the year 2011 and 2012, municipal fiscal revenue from income represented 26.71% and 26.19% of total fiscal revenue. In Porto, in the year 2011 and 2012, municipal fiscal revenue from property represented 55.3% and 58.18% of total fiscal revenue.</li> <li>The change in the mix of local revenues depends mainly on changes in the Local Governments Finance Law. Municipalities can influence revenue when they choose rates for taxes where they have the capacity to do so.</li> <li>The changes in the Local Finances Law in Portugal have been increasing the importance of revenues coming from income. This is done by transferring 5% of Income Tax collected from the residents to municipalities. The municipalities can decide to benefit resident tax payers by setting a value smaller than 5%.</li> </ul>	8.6
1.4. Tax rate increases imposed on business enterprise are no higher than on private individuals.	<ul style="list-style-type: none"> <li>Changes in rates in the last three years:</li> <li>IMI: 0.7 % of non-valuated urban property and 0.4 % of evaluated urban property (maximum rates)</li> <li>IRS (income tax): maximum rate (5%)</li> <li>Derrama: Decrease of rates of Derrama for small businesses (sales below or equal to 150 000 euros) from 1.4% to 1.2 % of business income subject to IRC (business tax). Business with sales superior to 150 000 euro pay the maximum rate defined in national legislation (1.5%).</li> </ul>	10
<b>2. Transparency and involvement of the public</b>		
2.1. Budgetary and financial discussions should be made at open meetings (R2)	<ul style="list-style-type: none"> <li>The meetings of Municipal Assemblies are open to the public but citizens do not participate in the discussion of financial documents.</li> <li>Financial documents (Budget Reports and Management Reports / <i>Relatórios do Orçamento</i> and <i>Relatórios de Gestão</i>) are available to citizens in the site of the municipality.</li> <li>Minutes of meetings both of the executive council (Câmara Municipal) and of the Municipal Assembly are available in the site "Boletim Electrónico".</li> <li>Local media inform the public on the decisions.</li> </ul>	9
2.2. Local government associations should be involved in drafting local tax regulations (R5)	<ul style="list-style-type: none"> <li>ANMP (Portuguese Association of Municipalities) is involved in negotiations with Central Government in major decisions concerning municipal finances.</li> <li>Usually ANMP participates with representatives in Commissions to change legislation related with municipal finances. The last Law of local Finances creates a council where ANMP is represented. This council has as main purpose to follow up municipal finances.</li> <li>ANMP participates in the process presenting their own proposals for the design of legislation on municipal finances.</li> </ul>	10
<b>3. Timing of Fiscal Decisions</b>		
3.1. Decisions on revenues should be made parallel to expenditure (R.4.)	<ul style="list-style-type: none"> <li>Under normal circumstances, the approval of State Budget in Portugal occurs by November 30.</li> <li>Frequently the State Budget changes the amount of transfers to municipalities and debt limits.</li> <li>Although there are stable rules under the Local Government Finances Law, State Budgets introduce some disturbance on municipal revenues.</li> <li>Municipal deficits are allowed but limits on municipal debt are the major restriction.</li> <li>Local budget amendments are made by elected bodies.</li> </ul>	9.2
<b>4. Use of IT</b>		
4.1. Managerial efficiency should be improved by IT in (R6):	<ul style="list-style-type: none"> <li>Accounting software is used by the finance department: YES.</li> <li>Service organisations are linked to municipal accounting systems electronically: YES</li> <li>Local treasury is in operation: YES</li> <li>Number of electronic datasets available/used by the local administration: One in the financial services and a large number for all services.</li> <li>Local databases are connected and integrated: YES</li> <li>Councillors have email address and access to internet: YES</li> </ul>	10



	<ul style="list-style-type: none"> <li>Local government has a website: YES</li> <li>Draft council documents are put on the website: Only internally.</li> </ul>	
<b>5- Capacity development of local staff</b>		
5.1.Training in various forms are needed for the local staff (R7)	<ul style="list-style-type: none"> <li>Percentage of civil servants with training courses organized locally in a year: 45%</li> <li>Percentage of Staff days spent at training courses in a year: 0.07%</li> <li>Percentage of elected local officials and councillors taking courses organized locally: Not available</li> <li>Budget for training in percentage of labour costs: 0.00022%</li> <li>Subjects of training courses (legal, financial, fiscal, management, other skill development): very diversified.</li> </ul>	8.6
5.2.Systems should be set up to enhance professionalism in financial and fiscal matters (R8)	<ul style="list-style-type: none"> <li>Meeting national employment standards of fiscal staff in one year: YES.</li> <li>Meeting internal rules of qualifications for finance departments: YES.</li> <li>Fiscal experts available at line departments: YES.</li> <li>Access to fiscal information by all units of local administration: YES.</li> </ul>	10
5.3.Systems should be set up to enhance ethics of staff in financial and fiscal matters (R8)	<ul style="list-style-type: none"> <li>Code of conduct for councillors on managing conflict of interest: YES for all the organization.</li> <li>Code and procedures for administrative staff for managing conflict of interest: YES for all the organization.</li> <li>Local regulations are harmonised with national rules: YES.</li> <li>Cases registered for following/breaking rules of conflict of interest: Not available.</li> <li>Internal rules of financial management are in place for setting limits to authorisation of payments: Defined in the norms of budget execution.</li> <li>Internal rules of financial management are in place to separate authorization of payments and actual transfers: YES.</li> </ul>	9.3
<b>II. Local taxation</b>		
<b>6.Local tax policy design</b>		
6.1.Local taxes should be based on the principle of fairness (R9)	<ul style="list-style-type: none"> <li>IMI combines well the principle of benefit and ability to pay. The increase in IMI resulting from re-evaluation of property leads to an increase in tax revenue but this increase is limited to a certain amount in a transitional period. This increase has substantial benefits from an equity point of view.</li> <li>Small businesses have a lower rate of Derrama (business tax).</li> <li>The burden on citizens resulting from the change in the value of urban property has been recently diminished with a decrease in the rates of IMI over evaluated urban property.</li> </ul>	8.7
6.2.Local taxes should produce high yield (R9)	<ul style="list-style-type: none"> <li>Costs of tax administration: 2.3 % and 4.8% of collected fiscal revenue for 2011 and 2012, respectively.</li> <li>Costs of tax administration: 1.3% and 2.9% of total expenditures.</li> <li>Local tax revenues in percentage of local own source revenues: 77.3% and 75.6% in 2011 and 2012, respectively.</li> <li>Local tax revenues in percentage of total budget: 53.9% in 2011 and 54.8% in 2012.</li> <li>Local tax revenues in percentage of current budget: 63.2 % in 2011 and 61.3 % in 2012.</li> </ul>	10
6.3.Real value of property tax yields should be preserved by effective administration and regular rises in tax rates	<ul style="list-style-type: none"> <li>Frequency of tax rate variation in IMI (urban property tax): rates of IMI were diminished in 2013 to be applicable in 2014.</li> <li>Frequency of property values actualization: Property values were updated in 2012 (nationwide). Evaluated urban property has a lower interval of rates. So the increase in IMI revenue is influenced by these lower rates as well as by the fact that there is a limit of annual increase of IMI during a transitional period.</li> <li>IMT rates have been stable. Few exceptions: rates of IMT (residents in countries with special treatment); exemptions.</li> <li>Growth rates of revenue of taxes on property in 2011 and 2012: IMI (-1.37%; 7.24%); IMT (-20.78%; -23.17%); IUC (6.1%; 11.4%). Growth of revenue coming from IMI and IUC and sharp decrease in revenue from IMT:</li> </ul>	8
6.4.Number of local taxes should be kept low (R12)	<ul style="list-style-type: none"> <li>Number of local taxes: 4 (IMI, IMT, Derrama, IUC). IMT is going to be extinguished till 2018.</li> <li>Changes in number of local taxes: No changes in the number of taxes, but substitution of taxes (Contribuição Autárquica was substituted by IMI; Imposto Automóvel was substituted by IUC, Sisa was substituted by IMT)</li> <li>Number of local taxes in percentage of total number of potential local taxes: Considering as potential taxes a tax on income and a tax with environmental purposes, 4/6 (66.6%). In the future it will be 3/5 (50%).</li> </ul>	10
6.5.Changes in level of local taxation should be adjusted to variation in local preferences and objectives (R11, R13)	<ul style="list-style-type: none"> <li>Level of local taxation depends on the value of tax bases and on the tax rates set by municipalities when the municipality has the capacity to do so. A major subject is the choice concerning collecting revenue from income or from property. In the municipality the decisions concerning this option is the following:</li> <li>Derrama: To benefit small businesses setting a lower rate of Derrama.</li> <li>10% decrease of rates of IMI on evaluated urban property (decision taken in 2013)</li> <li>Tax revenues annual growth (considering the last three years): -4.66% (2010-2011) and -7.10% (2011-</li> </ul>	10

	2012). <ul style="list-style-type: none"> <li>• Total revenues annual growth (considering the last three years): -1.96% (2010-2011) and -11.00% (2011-2012)</li> <li>• The decrease in rates of IMI is only possible because of the reduction of costs with municipal debts (-8.8 M €).</li> </ul>	
6.6.Changes in local tax framework should be made in a timely manner (R14)	<ul style="list-style-type: none"> <li>• Date of approval of tax rates for the following fiscal year: IMI (May 14, 2012); Derrama (December, 17 2012); IRS (December, 17, 2012)</li> <li>• Tax rates decided at national level: Approval of State Budget (Nov. 30).</li> </ul>	10

7.Tax Policy		
7.1.Local tax bands should be simple and fair (R18)	<ul style="list-style-type: none"> <li>• There is no personal income tax at municipal level. But municipalities may decide to return up to 5% of collected revenue to residents.</li> <li>• Small businesses pay a lower rate of Derrama.</li> </ul>	10
7.2.Local taxes should be based on stable tax base (R20)	<ul style="list-style-type: none"> <li>• Revenue generated by taxes with stable tax base (IUC; IMI) represents in 2011 and 2012 respectively 54.9% and 63.2% of total revenue of direct taxes and 45% and 53.6% of total fiscal revenue. The corresponding percentages for all municipalities in 2011 are respectively 64.0% of total revenue of direct taxes and 55.1% of total fiscal revenue.</li> <li>• Tax base of IMT is very unstable but this tax is going to be eliminated till 2018.</li> <li>• Data bases with identification of tax payers are administrated by central government fiscal authorities. The municipality of Porto has information given by fiscal services of central government.</li> </ul>	10
7.3.Tax avoidance and evasion should be prevented (R18)	<ul style="list-style-type: none"> <li>• Ratio collected fiscal revenue/ forecasted fiscal revenue: 97.1% (2011) and 93% (2012)</li> <li>• Percentage of delinquencies in local tax collection: Not available because taxes are collected by central government fiscal services.</li> <li>• Litigation on direct taxes is not conducted by the municipality.</li> <li>• Composition of arrears by time: 101 636 € (2011) and 185 602 € (2012)</li> <li>• Number of court cases: Indirect taxes and user charges (21 and 22 respectively in 2011 and 2012);</li> <li>• Fiscal execution processes on other type of revenue: 10 165 and 8 583 processes of fiscal execution in 2011 and 2012.</li> <li>• Potential value of fiscal executions: 1.247.609 € (2011) and 2.368.513 € (2012). Fiscal revenue with fiscal executions (2 280 800 € in 2011 and 956 258 € in 2012).</li> </ul>	10
7.4.Quality of tax regulations should be improved (R18)	<ul style="list-style-type: none"> <li>• Local revenue policy goals are translated to tax regulations: The municipality has a regulations code (<i>Código Regulamentar</i>) covering all the areas of intervention of the municipality.</li> <li>• Taxes collected through tax audit: see item 7.3.</li> <li>• Litigation cases on tax collection are a responsibility of central administration. Municipal litigation cases on user charges (176 litigation cases between 2001 and 2011).</li> <li>• Litigation cases won, compared to total number of cases: 21 in 2011 and 16 in 2012.</li> </ul>	8.7
7.5.Information on tax base should be updated and has to be founded on legally available sources (R19)	<ul style="list-style-type: none"> <li>• Shared information bases by various units of local administration: room for improvements.</li> <li>• Local cooperation with horizontal partners on information (e.g. police, utility companies): YES.</li> <li>• Cooperation with higher authorities collecting information, relevant for local tax administration national tax office, business registry, cadastre, vehicle registration: YES</li> </ul>	8.7
7.6.Reserves should be set aside for litigation (R24)	<ul style="list-style-type: none"> <li>• Litigation cases compared to total number of tax payments: NA</li> <li>• Average costs of court cases: 700 €.</li> <li>• Litigation cases won, compared to total number of cases: see 7.4.</li> <li>• Reserves set aside litigation: YES</li> </ul>	8.7
8.Information and Publicity		
8.1.Local tax policy should be designed in an open, transparent way (R10)	<ul style="list-style-type: none"> <li>• Publishing, posting draft tax policies: YES, according to national legislation.</li> <li>• Disseminating drafts on local tax policy options: Only internally.</li> <li>• Documents justifying local tax decisions should be transparent: public hearings; Financial and Economic justification of indirect taxes and users charges.</li> </ul>	8.7
8.2.Information and explanation on local taxes and tax	<ul style="list-style-type: none"> <li>• Means of information sharing (electronic, posters, direct mailing, telephone): All of them.</li> </ul>	

regulations should be made public (R15, R17)	<ul style="list-style-type: none"> <li>Public hearings and consultation before and after the tax regulations are approved: YES.</li> <li>Citizen charter on local indirect taxes and user charges (availability, quality): YES, good quality.</li> <li>The municipality organizes an annual seminar on legal aspects of municipal administration.</li> <li>The municipality provides in its page a simulator of value of user charges.</li> </ul>	10
8.3.Public information on use of local tax revenues should be comprehensive, understandable (R16)	<ul style="list-style-type: none"> <li>Evaluation of the reporting on the implementation of local budgets: Regularly, the municipality of Porto sends to residents in Porto information on municipal finances. The information is clear and precise.</li> <li>Reporting on earmarked local taxes: not applicable.</li> <li>Public information by types of major local taxes: DR; site of the municipality, media.</li> </ul>	10
<b>9.Tax Administration</b>		
9.1.Tax registration and timely collection should support smooth cash flow (R21)	<ul style="list-style-type: none"> <li>Direct taxes are administrated by Central Government fiscal services.</li> <li>Delays and unpaid indirect taxes and user charges are followed by the tax information system: YES.</li> <li>Notification, warning practice on non-payments of indirect taxes and user charges are in place: YES.</li> <li>Internal legal procedures for non-payment are regulated and publicly known: YES.</li> <li>Inflow of local taxes is equally distributed throughout the budget year: According to records of tax collection in 2011 and 2012, tax revenues collected in the first semester represented 48.0% and 48.7% of total tax revenue, and in the second semester 52.0% and 51.3% of total tax revenue.</li> </ul>	10
9.2.Tax administration should be simple: few formalities, least administrative efforts by tax payers (R22)	<ul style="list-style-type: none"> <li>Public information on local tax regulations: Available. See items above.</li> <li>Billing: timely call for tax payment: YES.</li> <li>The Municipality has a regulations code (<i>Código Regulamentar</i>) easily accessible by taxpayers.</li> <li>Diverse forms of payment: Yes. Modern forms of payment are available.</li> <li>The municipality has in its site a simulator of user charges.</li> <li>The municipality has integrated front desk services – Citizens´ Shop (<i>Loja do Município</i>).</li> </ul>	10
9.3.Payment demands should provide information on tax levies (R23)	<ul style="list-style-type: none"> <li>Compulsory elements of local tax claims:</li> <li>Identification of taxpayer (property owner): YES.</li> <li>tax base, exemptions: YES.</li> <li>tax rate, amount due: YES.</li> <li>deadline for payments: YES.</li> <li>forms of payment: YES.</li> <li>consequences of delay or non-payment: YES.</li> <li>options for appeal: YES.</li> </ul>	10
9.4.Easy payment systems (R23)	<ul style="list-style-type: none"> <li>Availability and use of various forms for paying local taxes:</li> <li>Personal, through cashier: YES.</li> <li>Bank transfer: YES.</li> <li>Checks: YES.</li> <li>Other: PAYSHOP; ATM (MULTIBANCO); POSTAL TRANSFER.</li> </ul>	10
9.5.Complaint procedures should be clear (R23, R24))	<ul style="list-style-type: none"> <li>Direct Tax administration is assured by Central Government fiscal services</li> </ul>	NA
<b>10.Tax system audit</b>		
10.1.Comparing collection costs with tax revenues	<ul style="list-style-type: none"> <li>See 6.2.</li> </ul>	10
10.2.Tax coverage: identification of tax payers and collection rate	<ul style="list-style-type: none"> <li>Regular update on tax payer registry: YES for indirect taxes and user charges payers.</li> </ul>	10
<b>III. Fees, charges and miscellaneous revenues</b>		
11.1.User charges should not exceed service costs (no profit on paper) (R26)	<ul style="list-style-type: none"> <li>User charges have to be justified by a financial and economic study where it is demonstrated that user charges are proportionate to benefit of municipal services and costs of provision by the municipality.</li> </ul>	10
11.2.Charges should not reduce demand for services excessively (R27)	<ul style="list-style-type: none"> <li>Local policy preferences are reflected in average charges, exemptions and subsidies: YES.</li> <li>Pricing methods follow local policy goals: charges by block of consumption, classification of users: YES.</li> <li>External impact of charge increase: changes in illegal dumping of waste, illegal connections to water system, water unaccounted: YES</li> </ul>	10
11.3.Choice between charges or local taxes should be	<ul style="list-style-type: none"> <li>Local policy preferences are reflected in the proportions between local taxes and user charges: The influence of the municipality is assured through the rates of direct taxes that the municipality can set and</li> </ul>	8

made explicit (R28)	<ul style="list-style-type: none"> <li>the level of indirect taxes and user charges defined.</li> <li>User charges are preferred for services with a <ul style="list-style-type: none"> <li>measurable output: YES</li> <li>visible benefit: YES</li> <li>easily identifiable user: YES</li> <li>alternative service providers: YES for prices (tariffs)</li> <li>measurable costs: Yes for user charges and prices.</li> <li>manageable collection of user charges: in some cases the revenue is small compared to costs of collecting taxes.</li> </ul> </li> </ul>	
11.4. Access to essential services by disadvantaged groups should be preserved (R29)	<ul style="list-style-type: none"> <li>Pricing methods reflects social policy goals (partial costs pricing): YES.</li> <li>Subsidies for service users financed through charges are in place: YES.</li> </ul>	10
11.5. Exceptional revenues should finance capital revenues (R31)	<ul style="list-style-type: none"> <li>Windfall revenues are separated in local budget: YES.</li> <li>Own source capital revenues are used only for capital expenditure: The municipality has a current surplus. So this rule has been followed.</li> </ul>	10
<b>IV. Capital budgeting financing</b>		
12.1. Local capital investments are managed effectively	<ul style="list-style-type: none"> <li>appropriations on capital expenditures are separated in the local budgets: YES.</li> <li>capital investment projects are completed within the forecast budget: YES.</li> <li>large capital projects, constructions are finished on time: YES.</li> </ul>	10
12.2. Capital expenditures are funded by diverse sources of local revenues	<ul style="list-style-type: none"> <li>surplus of general revenue over operational costs is identifiable from the municipal accounts and local financial reports: YES, using budget indicators and comparative tables.</li> <li>non-recurrent revenues, such as sale of assets, proceeds from privatisation are appropriated to investment expenditures, only: YES.</li> <li>affordable borrowing is confined to funding long term investment: YES.</li> <li>revenues raised through private sector participation for capital investment: NA</li> <li>intergovernmental transfers intended for capital projects: Yes.</li> <li>EU projects: EU represented 16.8 % and 15.0% of total transfers received (6 964 125 € and 5 460 952 €)</li> </ul>	10
12.3. Debt service costs are covered by estimated surplus of revenue over operational costs	<ul style="list-style-type: none"> <li>funds available from the general municipal budget: The municipality has a surplus in its current budget. Current surplus was 34 221 340 € and 34 993 897 € respectively in 2011 and 2012.</li> <li>revenues (fees, charges) accruing from the assets created: YES.</li> </ul>	10
12.4. Short term loans finance cash flow deficits within the fiscal year	<ul style="list-style-type: none"> <li>Structure of local government annual borrowing (flow): In 2012 the municipal debt represented 27.6% of Total Liabilities (it diminished 8.7% from 2011 to 2012); in 2012 short-term municipal debt represented 6.1% of Total Liabilities (it diminished 8.7% from 2011 to 2012). In 2012 the municipality did not contract further short term municipal debt.</li> <li>Short-term loans are eliminated by the close of the budget year: YES despite not being a requirement imposed by national legislation.</li> </ul>	10
12.5. Borrowing complies with limits imposed by the national legislation	<ul style="list-style-type: none"> <li>information required by national borrowing regulations is available from the financial reports for several years (on annual borrowing, debt repayment (interest, capital), debt stock): Quarterly information available (sent to Central Government -DGAL) and annual information in municipal accounts.</li> <li>loan guarantees (contingent liabilities) are incorporated in reports on municipal debt: NO.</li> <li>ratio of utilizing limits on local government borrowing: actual year and medium-term forecasts: In the first semester of 2013 the municipality used only 27.2% of the limit of medium and long term debt and 95.7% of the limit of net debt limits are defined in the State Budget.</li> <li>Dynamics of municipal debt: short term debt inferior to 10% of total expenditures excluding payroll expenditures and global debt to banks and other financial institutions expected to diminish 6.1%.</li> </ul>	10
<b>V. Local property</b>		
13.1. Local governments keep records of their own assets and liabilities.	<ul style="list-style-type: none"> <li>municipal balance sheets are annually prepared: YES, every three months (sent to DGAL) and annually (<i>Relatório e Contas</i>).</li> <li>report on local assets is based on inventories, audited information sources: YES. The municipal has accounts audited.</li> <li>value of local non-financial assets is regularly updated: YES using the requirements imposed by POCAL (accounting system for local governments).</li> <li>complete inventories of direct and indirect (contingent) liabilities: YES</li> </ul>	10

	<ul style="list-style-type: none"> <li>consolidated local government balance sheets are publicly available: YES, in paper and in the site of the municipality.</li> </ul>	
13.2.Organisational forms and rules of asset management are transparent	<ul style="list-style-type: none"> <li>clearly regulated decision making powers on sale, use and charging of municipal assets: YES in "<i>Código Regulamentar</i>" and "<i>Tabela de Taxas e Preços</i>".</li> <li>effective local government control over the municipal asset management organisation: YES, the municipality has software with registry of assets.</li> </ul>	10
13.3.Local Governments keep control of strategic property	<ul style="list-style-type: none"> <li>Water supply is assured by a municipal company (<i>Empresa Municipal CMPEA_ Aguas do Porto, EM</i>).</li> <li>Residual treatment is assured by a inter-municipal company (<i>Empresa LIPOR</i>).</li> <li>Other infrastructure and networks belonging to the municipality: Two municipal companies, Municipal public works (GOP) and housing (DomusSocial, EM).</li> <li>Services provided by private sector under concession contract: meals; street cleaning.</li> <li>Services provided by PPP: NO.</li> <li>Other contractual agreements: NA</li> <li>The municipality did not anticipate revenues by selling strategic property.</li> </ul>	10
13.4.Regulations on Municipal companies ensure their long term financial stability	<ul style="list-style-type: none"> <li>Compensations to municipal enterprises are regulated by contracts. Municipal enterprises every three months are subject to financial control.</li> </ul>	10

## Benchmarks of financial management of local and regional authorities

SECTION and AREA (with reference to the number of Recommendation)	EVALUATION FOR PORTO	SCORES 0-10
<b>I. Sound budgeting and fiscal planning</b>		
<b>1. Fiscal strategy design</b>		
1.1.Overall financial framework of multi-year budget (R.45)	<ul style="list-style-type: none"> <li>Municipal budget accounts for macroeconomic scenarios: YES, the first step is the definition of macroeconomic scenarios.</li> <li>Clear connection between local policies, strategies and budget items establishes the accountability: YES.</li> <li>The changes of overall budget cap fit into the macroeconomic framework and accepted by the local policy objectives. YES, the financial management in Porto is solid, which is reflected in the high rate of execution of the budget.</li> </ul>	10
1.2.Multi-annual budget plans (R.45)	<ul style="list-style-type: none"> <li>The precondition of balanced annual budget is the multi-annual plan, which aligns the resources and service levels: YES.</li> <li>Multi-annual plan does not play only a formal role it does not have strong managing power. It considers the future consequences of financial decisions on an accrual basis: YES.</li> </ul>	10
1.3.Budget strategy debate (R.73.)	<ul style="list-style-type: none"> <li>Debate at executive level.</li> <li>Debate at Municipal Assembly Level.</li> <li>Room for an increase in the participation of citizens in this debate.</li> </ul>	8.7
1.4.Zero Base Budgeting	<ul style="list-style-type: none"> <li>Introduced in 2003.</li> </ul>	10
<b>2.Budgeting methods and capacity</b>		
2.1.Technical capacity in budget preparation procedure. (R. 46., 57., 58.)	<ul style="list-style-type: none"> <li>The number of participating departments, including the nature of their work: all the services present budget proposals.</li> <li>Budget preparation is supported by all type of local professional capacity: YES</li> <li>The budget preparation is the most powerful tool to discuss and select the best solutions of service delivery: YES, but there is room for improvements.</li> <li>Comparisons are used to justify the appropriate changes in figures, comparing the former performances, according to the objectives: There is a strong orientation to cuts in the budget.</li> <li>Broad involvement of staff: all services are involved and concerning the financial services a task force do prepares the budget.</li> </ul>	9.2
2.2.Nature of voting units (R. 47.)	<ul style="list-style-type: none"> <li>The ceiling and objectives of voting units are clear enough to implement the expected outputs; and their quantity and quality are measured: Yes, together with the orientations to elaborate the budget by each service.</li> <li>Without the appropriate decisions by commitment type changes on voting unit is prohibited. (R. 50.): Yes according to POCAL and Local Finances Law.</li> <li>Clear structure of voting units keeps track of the budget implementation and service performance: There is a structure responsible for budget control and software of budget control is available.</li> </ul>	10
2.3.Analytical sheets make the budget transparent (R. 47.)	<ul style="list-style-type: none"> <li>The system of connected budget sheets supports the understanding of the budget, providing different dimensions of the data: YES.</li> <li>The objectives of using more dimensions and cross-references to serve information for decision making, and with the same figures to set up the obligations for budget implementations, according to the implementation rules: YES.</li> <li>A structured set of analytical budget helps to understand better the power of budget planning: YES.</li> </ul>	10
2.4.Explanations of performance (R.54)	<ul style="list-style-type: none"> <li>Budgeting and output data and information on performances explain fiscal objectives: YES.</li> <li>An agreement between elected members and officials on the performance indicators is the starting point to improve service level: there is an integrated view of strategic goals for the municipality, strategic goals for the services, goals for civil servants and service performance indicators and civil servants performance evaluation (SIADAP).</li> <li>Performance monitoring focuses on the public money to deliver the expected outputs: YES, but evidence is not presented.</li> <li></li> </ul>	8.7
2.5.Satellite agencies in the budget	<ul style="list-style-type: none"> <li>The scope of local budgets fits into national framework, and it does not include prohibited</li> </ul>	

proposal. Rules of consolidations of accounts (R. 61.)	<ul style="list-style-type: none"> <li>items: YES.</li> <li>Based on national legislation, the nature of local bodies is identified and the coding system for classification exists: Budget preparation follows the general norms applicable to local governments.</li> <li>The proper classes of bodies are the precondition of proper consolidation of financial data: financial data is consolidated with enterprises where the municipality has a majority of capital.</li> </ul>	10
2.6.Financial reserves for risk management (R. 63., 64., 65., 67., 68., 69.)	<p>The framework of sound financial system and risk management exists. It includes:</p> <ul style="list-style-type: none"> <li>the qualifying criteria: YES.</li> <li>rules to sort risks, which subject to predefined financial reserves: Yes following POCAL.</li> <li>rules to sort risks, which maybe need some insurance: YES.</li> <li>The structures, figures to present risky items, loans guarantees, etc, in the budget documents exist: YES.</li> <li>There is a follow-up system and ongoing control system: The Municipality has a Balanced Score Card (monthly and quarterly controls). Each three months there is a meeting of the Municipal Council of Finances to analyse financial indicators for the municipality, municipal enterprises and municipal foundations.</li> <li>Responsibilities of risk management in the organization structure are clearly published and assigned: YES.</li> </ul>	10
<b>3.Budgeting procedures</b>		
3.1.Involvement of elected bodies (R. 49., R.74)	<ul style="list-style-type: none"> <li>Level of understanding of budget objectives by the elected bodies: High (no evidence was presented).</li> <li>Appropriate procedures exist: <ul style="list-style-type: none"> <li>raising questions: YES.</li> <li>avoid conflict of interest, carrying out lobbying and anti-corruptions; The municipality has a Anti-corruption Plan, coordinated by the Municipal Audit Services.</li> </ul> </li> <li>Local representatives understand the consequences and future impact of their decision, their influence on the service level: YES, but no evidence was presented.</li> <li>Training is organized to increase awareness of this dimension by local representatives.</li> </ul>	8.4
3.2.Independent opinion on proposal	<ul style="list-style-type: none"> <li>It helps the proper budget debate. Some special considerations need special professional knowledge: When needed, the municipality seeks independent opinions, especially on legal matters.</li> <li>Independent opinion helps to make it sure, that the main decisions of local authorities are proper balanced and well prioritized: Yes. (no evidence was presented)</li> <li>After delivering independent opinion the elected members need more time to consider it: YES.</li> </ul>	8.7
3.3.Separate debate and adoption of complex, major investment projects or other significant programs (R. 50., 59. 71.)	<ul style="list-style-type: none"> <li>Decision procedure of regular complex programs (IT programs, reforms, changing structure, etc.) which are subject to separate decision: YES.</li> <li>Procedure exists to involve citizens to identify significant investment projects: No. The municipality does not have a participatory budget.</li> </ul>	8.0
3.4.Outsiders' contribution helps accountability (R. 55.)	<ul style="list-style-type: none"> <li>Occasional and/or regular procedures: rules imposed by national legislation.</li> <li>Local rule sets up the obligation to consult regularly with the social partners, citizens: YES in some cases.</li> <li>An open forum exists to collect citizen contributions: NO.</li> <li>Regular consultancy supports autonomy: YES.</li> </ul>	8.0
3.5.The timeframe of budget debate by elected bodies	<ul style="list-style-type: none"> <li>There is enough time to prepare debate. Any proposal has to be distributed at least 5 days before the meeting of the Executive Council and before the meeting of the Municipal Assembly. Documents available in the electronic site of the municipality.</li> </ul>	10
3.6.Openness of budget documents (R.52, R. 56.)	<ul style="list-style-type: none"> <li>Information, minutes of meetings, publication on internet: YES.</li> <li>Leaflets, which present the main objectives, figures, graphs: YES.</li> <li>Public hearing, as part of budget debate: No.</li> </ul>	8.7
<b>4.Fiscal policy objectives</b>		
4.1.Cost saving		



strategies are adopted and sustained	<ul style="list-style-type: none"> <li>share of current expenditures in total local government budget: 69.8% (2011) and 76.2% (2012).</li> <li>change in operating surplus (operating expenditures minus recurrent revenues): 2.3% (2012 compared with 2011)</li> <li>ratio of payroll costs on total expenditure: 31.3% (2011) and 32.7% (2012)</li> </ul>	10
4.2.Cutbacks in payroll expenses should limit redundancies	<ul style="list-style-type: none"> <li>trend in local employment costs: 32.88% (2011) and 31.65% (2012) of total costs.</li> <li>change in municipal employment (both civil servants and public employees): There was a substantial reduction of the number of civil servants and public employees in the last years. In 2008 the number of collaborators was 2863 and in May 2013 2556.</li> <li></li> </ul>	10
4.3.Support to non-governmental organisations providing community services to vulnerable groups should be protected during restrictions	<ul style="list-style-type: none"> <li>municipal services contracted to community, non-profit organisations: YES, through the Fundação Porto Social.</li> <li>rents in municipal housing defined according to capacity to pay.</li> </ul>	10
4.4.Cooperation with other local authorities (R.70)	<ul style="list-style-type: none"> <li>The level of cooperation and cost sharing to improve the efficiency and effectiveness (both to vertical and horizontal direction.): YES, with municipal enterprises and foundations.</li> <li>Cooperation within Metropolitan Area of Porto (AMP).</li> <li>Cooperation concerning the acquisition of goods and services. Low.</li> </ul>	8.7
4.5.Adjoining authorities share administrative and professional resources	<ul style="list-style-type: none"> <li>declared objectives of inter-municipal cooperation: YES, through AMP (Metropolitan Area of Porto)</li> <li>local governments cooperate for providing basic services and improving service quality: YES.</li> <li>scope of technical (utility, communal, transportation) services organized in cooperation: Culture, Transports, and Social Cohesion.</li> <li>joint purchases of goods and services: No.</li> <li>use of electronic procurement for buying goods and services: YES.</li> </ul>	9.2
<b>II. Special rules of budget adjustments and implementation</b>		
5.1.Regular evaluation keeps track of budget implementation (R.76., 77.)	<ul style="list-style-type: none"> <li>Midyear evaluations, quarterly monitoring reports make a regular supervision of implementation: YES, daily control of budget appropriations, monthly control of revenue and expenditures.</li> <li>They provide opportunities to decide adjustments, when necessary: YES. With the analysis of available funds adjustments are introduced in the projected revenue and the projected expenditure.</li> </ul>	10
5.2.Local framework of supervision, monitoring and reporting system set up to audit budget implementation (R .80., 83.)	<ul style="list-style-type: none"> <li>The approved budget, the report and statements about implementations together establish the framework of accountability: YES.</li> <li>The final report is made in the same structure as the budget: YES.</li> <li>Appropriate explanation on budget implementation exists, highlighting the causes of differences: YES, with a very detailed explanation of deviations.</li> </ul>	10
5.3. Independent opinion on final reports and financial statements. (R.83)	<ul style="list-style-type: none"> <li>Independent opinion (external audit) helps the elected members to trust the submitted final reports and the correctness of financial statements: There is external audit of municipal accounts.</li> <li>If external auditor fails to certify the statements, it means that serious problems were found, which could mislead the decision makers: YES.</li> </ul>	10
5.4.Budget adjustment during the year is limited. (R. 78)	<ul style="list-style-type: none"> <li>It is predefined when budget adjustment is necessary:</li> <li>Too frequent adjustments create uncertainty: YES, in the municipality usually there are 3 and 4 budget adjustments during the year.</li> <li>Too frequent adjustments make too bureaucratic decisions, which could overwrite the original objectives.</li> <li>Too frequent adjustments are against the transparency, because the subject can avoid the proper budget debate.</li> </ul>	10
5.5.Relations between the local	<ul style="list-style-type: none"> <li>local government and service organisations' finances are clearly separated: YES.</li> </ul>	



government and its subsidiary organisations are regulated by transparent agreements	<ul style="list-style-type: none"> <li>performance of services rendered are specified in written contracts: YES.</li> <li>sources of funding contracted services are specified annually (user charges, municipal subsidies, loans, etc.):YES.</li> <li>information on the municipal service contracts is accessible by the general public within the framework of the national legislation: YES. It is available in the site of the municipality in Public Aquisitiosns (<i>Compras Públicas</i>).</li> </ul>	10
5.6.Local government service contracts cover asset management and social issues	<ul style="list-style-type: none"> <li>regulations on the use of municipally owned assets by service organisations are covered by the contract: YES.</li> <li>responsibilities for operation, maintenance, repair and reconstruction of transferred assets are specified: YES.</li> <li>local governments receive compensation for their assets used by contractor: YES.</li> <li>low income users of municipal services receive targeted social benefits: YES, housing rents in municipal housing according to families' ability to pay.</li> </ul>	9
5.7.Local service management should be made efficient	<ul style="list-style-type: none"> <li>service performance measurement system is in place: YES ()</li> <li>outputs of municipal service provision are regularly assessed: YES (using a software-BSB).</li> <li>unit costs of services are evaluated : YES (evidence not available)</li> <li>service efficiency is a key target indicator for the service organisation and its management: YES.</li> </ul>	8.7
5.8.Local government financial operations are made transparent	<ul style="list-style-type: none"> <li>There is no public on-line scrutiny of large and medium size expenditures.</li> <li>Public scrutiny through publicity of accounts and audit evaluations.</li> <li>Scrutiny done by elected bodies.</li> </ul>	8.7
5.9.Municipality should not do over-budgeting	<ul style="list-style-type: none"> <li>Level of budget execution: high, 90.2% (2011) and 87.3% (2012).</li> <li>Procedures adopted to avoid over-budgeting: POCAL procedures with additional coefficient of prudence when revenue in decreasing.</li> </ul>	10
<b>III. Special control, supervision on activities</b>		
6.1.Framework and role of internal audit (R.82., R 84.)	<ul style="list-style-type: none"> <li>Locally clarified legal power of internal audit: YES, there is an internal audit service.</li> <li>Exact reporting line: the audit department reports to the Mayor.</li> <li>Proper audit strategy helps to concentrate resources: YES.</li> <li>The role of internal audit is to support the top managers, to improve the activities inside the local authorities: YES.</li> <li>If internal audit regularly reports to elected bodies, then it creates a climate not to audit sensitive areas and helps to remove a tool of top management: It does work this way (reports sent to municipal executive and Accounts Court (Tribunal de Contas)).</li> <li>As external audit is destined for helping elected members to exercise their controlling power, it is necessary to limit the internal audit reporting line to managers: NO.</li> <li>Lack of auditing resources should encourage effective cooperation between the two types of auditing: internal audit and external audit are separated for transparency reasons.</li> </ul>	10
6.2.Special consideration have to guarantee PPP projects (R.72.)	<ul style="list-style-type: none"> <li>NOT APPLICABLE</li> </ul>	NA
6.3.Prudent commercial links. (R.60)	<ul style="list-style-type: none"> <li>There are written documents on the subject.</li> <li>Municipalities have to follow the national legislation (<i>Código de Contratos Públicos</i>).</li> </ul>	10
6.4.Criteria of usage external consultants.	<ul style="list-style-type: none"> <li>internal team work on the project, but some special professional knowledge is needed or it is better, if an independent leads the work: NO.</li> <li>the topic, the subject of knowledge or efficiency is the reason the outsourcing the activity: YES.</li> <li>Proper internal debate to make the decision: YES.</li> </ul>	8.7
6.5.Procedure of situation in financial difficulties (R85., 86., 87.)	<ul style="list-style-type: none"> <li>Procedures defined in the Law of Local Finances.</li> </ul>	10

