

Session #13

Chapter 4: The public sector in the EU and Portugal: scope, structure and accounts

4.1. The structure and nature of the EU and Portuguese Public Administration

4.1.1. Scope and structure

4.1.2 The state owned enterprises (inside and outside general government)

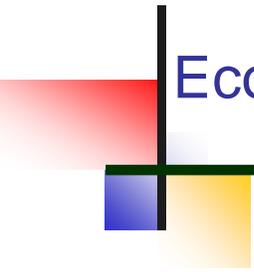
4.1.3. The General Government subsectors

4.1.3.1. Central Government (the State in *stricto sensu*)

-Direct administration and indirect administration

4.1.3.2. Social Security

4.1.3.3. Local and Regional Government



Economics and Public Finance – Core topics

- Public Sector
 - Public Administration (“PA”) and State Owned Enterprises (“SOE”)
- National Accounts (EUROSTAT) versus public accounts (non market vs. market)
- General Government (or Public Administration)
 - *Central Government*
 - *Local and Regional Governments*
 - *Social Security*
- The “State” (in *lato sensu e.g. State Budget*): central government and social security
- The use of the term “State” in federal countries and unitary countries.
- Political and administrative decentralisations
- Financial autonomy

Economics and Public Finance – The Public Sector (1/2)

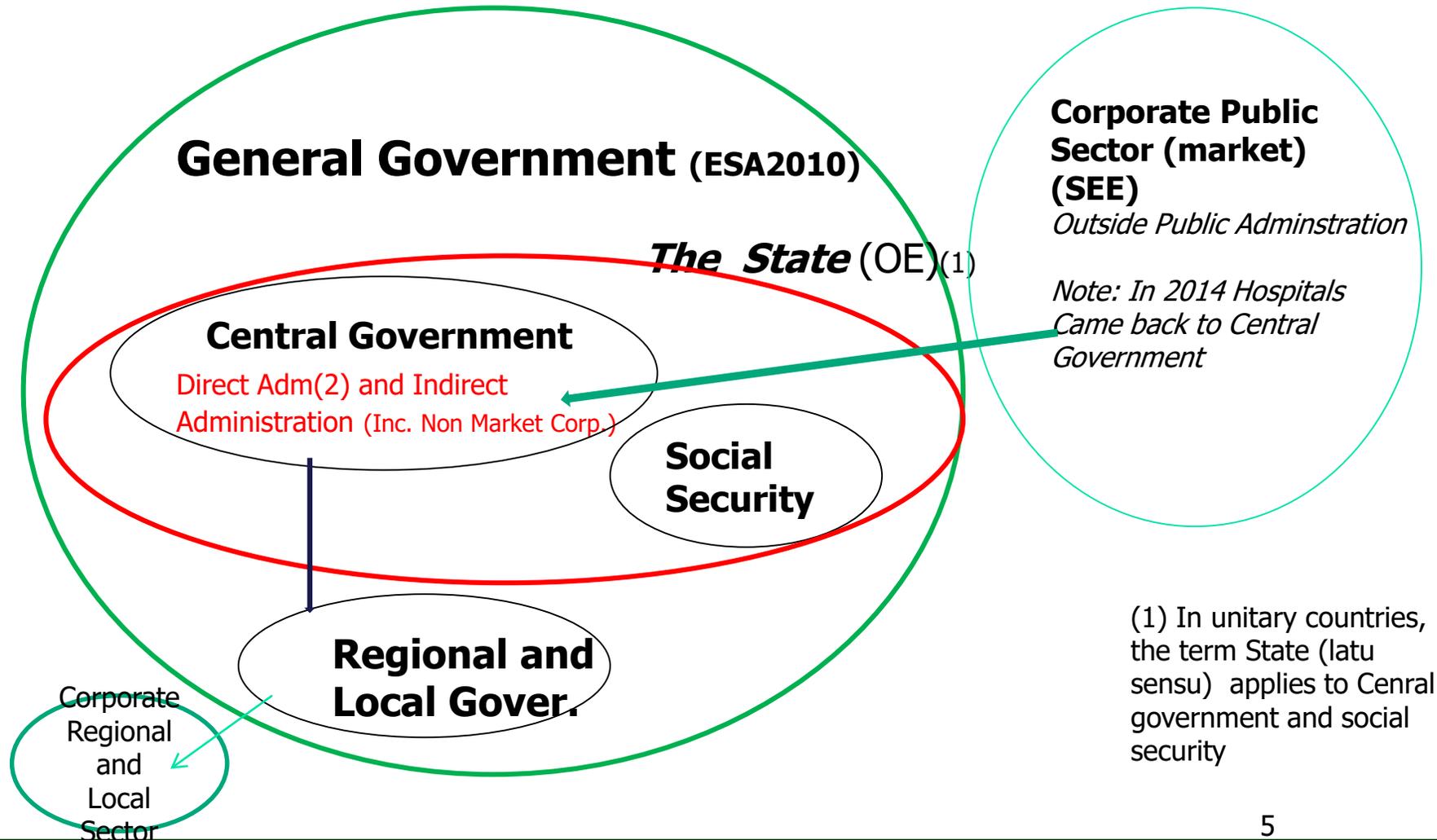
- Introduction to the public sector

- It is very typical to associate words like *state*, *public sector*, *public administration* or even *general government* as if it were and meant the same identical reality. **In fact, it is not so.**
- Therefore, there is the need to clarify these concepts.
 - What constitutes the public sector?
 - General government (GG)?
 - State owned enterprises? Are they inside or outside GG?
 - Public entities that provide goods at market prices?

Economics and Public Finance – The Public Sector (2/2)

- The **Public Sector** is divided into:
 1. **General Government**
 - *Government or Public Administration*
 2. **Corporate Public Sector (market based)**
 - Public enterprises (marketable), municipal enterprises, enterprises with a public majority share of capital and control,...
- The **General Government (S13)** is divided in: Central/Federal Government (S1311), State Government* (S1312) – Local Government (S1313) and Social Security (S1314)
- ***Only federal countries**, or quasi federal (e.g. Austria, Spain) have the intermediate “State” governments according to National Accounts (S1313) (**EUROSTAT**)

Economics and Public Finance – The Public Sector (3/3)



(1) In unitary countries, the term State (latu sensu) applies to Central government and social security

- **Scope of SOE (outside general government*)**: entities that
 - Sell goods or services with meaningful market prices,
 - Have a legal corporation status with the majority of public capital.

Scope of SOE (inside general government) – sales are at *non market prices*.

“The distinction between market and non-market activity is an important one. An entity controlled by government, which is shown to be a market corporation, is classified in the corporation sector, **outside** the general government sector. Thus, the deficit and debt levels of the corporation will not be part of the general government deficit and debt.” European System of Accounts 2010 (ESA 2010)

- **Subsidies**: the government pays compensations (“indemnizações compensatórios”) to some SOE due to the fact that these enterprises set prices below production costs, in order to provide the goods at lower prices for economic policy reasons and the public service.

Economics and Public Finance – National Accounts Systems

- Under the perspective of **ESA 2010 National Accounts (“NA” “contas nacionais”)**, we have:
 - **1. Scope:** it only considers redistributive or institutional entities of general government that produce *non-marketable goods and services*
 - **2. Accounting criteria:** transactions (revenues and expenditures) are recorded in an accrual basis “commitment perspective”
 - **Example:** The interests on public savings certificates (e.g. “certificados de aforro”) earned in year t , but paid in year $t + 1$, are recorded in t (**because the responsibility to spend is on year t**).
 - It is used for purposes of **budgetary policy supervision** following the **European Economic and Monetary Union (“EMU”) framework**, given that it is a mandatory requirement of the **Stability and Growth Pact (“SGP”)** (to be analysed in chapter 6).
 - *Note: National accounts criteria are more accurate and preferred to public accounts (cash flows) to avoid “political engineering” of public finances.*

Economics and Public Finance – Public Sector Accounting

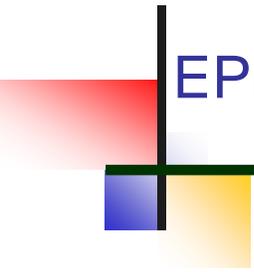
- Under the perspective of **Public Sector Accounting (“PSA”, contabilidade pública)**, we have:
 - **1. Scope:** similar to National Accounts but some Agencies (Autonomous Funds and Services) that provide marketable goods and services are herein included
 - **2. Accounting criteria:** transactions are recorded in a “**cash flow perspective**”
 - Example: the interests on public savings certificates earned in year t , but paid in **year $t + 1$ are recorded in $t + 1$.**
 - It is used for purposes of **state budgeting**.
 - Public accounts represents the underlying values/accounts used to construct National Accounts (“NA”) Systems (“NAS”).

EPF – The scope of General Government

- **General Government in European Union Countries** includes:
 - The institutional entities **producing *non-marketable* goods to individual or collective consumption.**
 - The entities **managing the redistribution of income and wealth** that have mandatory *payments* as a primary source of funding.
 - ***The main* sources of funding are not linked** to revenues earned by charging for goods provided or services rendered (eg. Fees or user charges),...
 - **but rather linked** essentially to taxes and social contributions (in the case of the **State** or **other public entities**).

EPF – The structure of Public Administration in Portugal

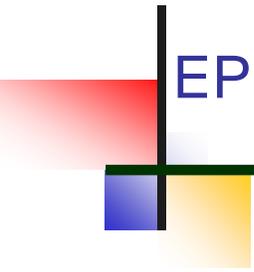
- The structure of **General Government in Portugal** (and **unitary countries**) can be addressed as follows:
 - **Central Government** (Administração central) – **S1311**
 - **Direct Administration**;
 - **Indirect Administration** (special agencies and entities);
 - Previously: *State; Autonomous Funds and Services of Central Administration*
 - **Social Security** – **S1314**
 - **Local and Regional Governments** (Administração regional e local) – **S1313**
 - *Regional governments (Azores and Madeira), municipalities and civil parishes*
 - *Autonomous Funds and Services of Local and Regional Administrations*



EPF – The notion of decentralisation in Public Administration

- **Definition**

- **Decentralisation** is an important concept in understanding the political and decision-making structure in Public Administration.
- **Decentralisation** can be defined as the transfer, usually, “top down” of powers, duties and responsibilities between different legal persons of public law, *i.e.*, different public bodies or other entities each with its own legal personality
- Examples: Transfer of education competencies from central government to local governments (in unitary countries) or of Hospitals from federal governments to state governments (in federal countries).



EPF – Two types of decentralisation in Public Administration

- There are two types of decentralisation in Public Administration, namely:
 - **Political decentralisation**
 - towards smaller territorial units with **democratic legitimacy** in terms of political and budgetary autonomies
 - **“Vertical” movement:** From Central to Local and Regional Authorities
 - **Administrative decentralisation**
 - whithin Central Government when it creates its own special agencies: subordinate public entities with administrative and financial autonomy
 - **“Horizontal” movement (within central government):** Autonomous Funds and Services such as public universities, hospitals, public institutes, regulators

Economics and Public Finance – The State in *lato sensu* (central government & Social security)

- In **unitary countries** (Portugal, France, Sweden, UK etc.) when referring to the **State Budget**, the word “State” is used in *lato sensu*
 - All subsectors have budgets and financial statements/accounts reported in a single document (**State Budget** and “**General State Accounts**”) given that their duties and responsibilities are going to impact on all citizens.
- The **State (lato sensu)** includes all the entities in public administration which are **under political control of the national/federal executive** :
 - 1. Those of Central Government which can be further divided into:
 - **Direct Administration, the State (in *stricto sensu*)** – Ministries and their departments.
 - **Indirect Administration**, the Autonomous Funds and Services of Central Administration – special agencies or non market corp. within central government
 - 2. The **Social Security** entities.

Economics and Public Finance – Central Government: **direct administration (1/3)**

- The Public Administration subsector includes all **integrated services (serviços integrados)** under the supervision of the **Ministers or Secretaries of State**.
 - which are **administratively de-concentrated**, *i.e.*, include several institutional entities generally having **administrative autonomy** yet without legal personality usually on a territorial basis.
 - Officials from public entities with **administrative autonomy** are allowed to make **day-to-day on-going management decisions** as long as they were previously earmarked in its budget.
 - Public entities with administrative autonomy have their **autonomous budgets appropriated in the State Budget** (transferred in provisional **twelfths**).
 - Public entities with administrative autonomy **lack legal personality**, *i.e.*, having no assets or revenues of their own, unable to resort to external funding for additional revenues and having limited contractual flexibility.

EPF– Central Government: **Indirect administration** (2/3)

- What does it mean for public entities under **indirect administration** (like the previous Autonomous Funds and Services, to have **administrative and financial autonomy**)?
 - It means
 1. having legal personality
 2. being able to have/acquire assets
 3. having an self-sufficient treasury management operations
 4. having its own revenues (not from the State Budget)
 5. being able to resort to external funding to finance its operations
 6. having greater contractual flexibility and freedom

EPF Central Government: **Indirect administration** (3/3)

- **Which public entities can be special entities, and have administrative and financial autonomy?**
 - generating 2/3 of its own revenues (or)
 - managing European Union funds (or)
 - being an independent or regulatory body (or)
 - being a member organisation of the ***National Health Service*** (“SNS”) (or)
 - being an higher education institution
- **Examples:**
 - hospitals
 - universities and colleges
 - the Tourism Regions
 - the National Theatre

EPF – Central government: summary of the different types of autonomy

	Public Administration's general type: Administrative Autonomy (most of them under <u>direct</u> administration)	Public Administration's supplementary type: Administrative and Financial Autonomy (most of them under <u>indirect</u> administration)
own legal personality	no	yes
type of autonomy	administrative autonomy	administrative, financial and asset management autonomy
own assets	no	yes
powers of officials	day-to-day management	management
financial resources	budget transfers from State Budget ("OE")	OE and EU funding and (the possibility of collecting) their own revenues (fees)
external funding to finance operations	no	yes (but with formal approval by the Ministry of Finance)
own expenditures	releasing of earmarked funds (in provisional twelfths)	control of expenditure commitments by the entity itself

Economics and Public Finance – Social Security (1/2)

- **Definition**

- Social Security comprises all institutional units whose **main function** is to assure the provision of **social benefits and welfare** in accordance with **the Portuguese social security system**, which protects citizens:
 - in sickness and unemployment,
 - with old-age, disability, widow's pensions,
 - as well as, with the ***Social Insertion Income*** (*Rendimento Social de Inserção* ("RSI"), in Portuguese) to people with a lack or decrease of means of subsistence or of capacity to work.
- **The main source of funds** is the compulsory Social Security contributions (by employees, employers and independent workers).
 - Some social benefits are directly funded by the State Budget.

Economics and Public Finance – Social Security (2/2)

- In practical terms,
 - The notions of **equity, social justice**, should be national, not regional or local (e.g. to define poverty level).
 - Social security applies **nationwide** the redistributive public policies associated with social benefits and welfare (standards of social benefits, regulation)
 - Its autonomy within all Public Administration subsectors supports the necessary transparency requirements for all social security schemes and guarantees an earmarking of social security contributions to social security allowances.

EPF – Local and Regional Administrations and governments

- **Definition**

- There are **two distinct realities**, strictly speaking, coupled with **political *decentralisation*** :
 - Regional Administration and governments.
 - Local Administration and Government
- **Furthermore, political autonomy means:**
 - Two levels of government
 - They have democratic legitimacy.
 - Budgetary independence
 - The Power to levy new taxes is basically in the Parliament, but regional and local governments can set the tax rates.
 - *Note: In EUROSTAT, regional and local governments in Portugal (and other unitary countries) are under “Local Governments” because it is a unitary country.*