Financial Imbalance in Portuguese Local Government: A descriptive analysis

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Abstract

This study aimed to make a descriptive analysis of local authorities' financial imbalance, so as to identify its possible determinants. Data were analysed for all Portuguese local authorities (308) for the period 2014 to 2016. The results led to concluding that the number of municipalities with a financial imbalance diminished during the period of analysis. Large municipalities are less likely to be in situations of financial imbalance. There also seems to be evidence that municipalities governed by a minority, as well as those without financial independence, are more likely to find themselves in this situation. Concerning political ideology (parties on the right or left), no evidence was found of this influencing financial imbalance. This evidence could contribute to those in charge of local authorities defining policies and measures to reduce financial imbalance.

Keywords: Financial imbalance, Financial recovery, Municipalities, Local Government.

1.Introduction

In the terms of ruling nº 1 of art. 238, the Constitution of the Portuguese Republic (CRP) gives financial autonomy to local authorities, so that they can dispose of sufficient and autonomous financial means to be able to meet their constitutional and legal obligations.

Generally speaking, local authorities have the right to collect and use their own income and make expenditure without needing to request authority, while balancing the budget.

The increased attributions and competences for local authorities, accompanied by a lack of resources, make them turn to other forms of financing (Lobo & Ramos, 2011; Ribeiro, Jorge, & Oliver, 2012). The shortage of financial resources leads to increased municipal liabilities (Cabral, 2003). The consequent inability to settle liabilities in the medium and long term produces a situation of financial collapse in municipalities. According to Carvalho, Fernandes and Camões (2018), in 2017 total medium and long-term debt for all Portuguese local authorities rose to 3.428,5 million euros.

Financial imbalance in local authorities is of increasing concern to central government, as local financial imbalance could jeopardize national financial balance. Furthermore, this concern is increased if considering that "*frequently, those in control, such as the Court of Auditors, draw attention to the illegalities committed, and their decisions or recommendations are ignored or got round with a greater or lesser degree of skill*" (Santos, 2017, p.140). From the above, it is relevant to study and deepen the issue, in order to assess the impact and influence of various factors on municipal financial imbalance, for the subsequent development of actions to balance council finances.

This research intends to analyse the issue of municipal financial imbalance, aiming to identify some possible causes of that imbalance. To do so, the 308 Portuguese local authorities are studied for the period 2014-2016.

The study is structured in four sections. After the introduction, a theoretical framework of the determinants of financial imbalance is presented, focusing on local authorities. The third section presents the empirical study. This defines the objective, the data treatment method and the variable studied, as well as presenting the descriptive analysis. Finally, the main conclusions are presented.

2. Determinants of financial imbalance in local authorities

Law nº 73/2013, of 3 September[1] (Financial Regime of Local Authorities and Intermunicipal Entities (RFALEI)), in article 5, stipulates balance, as a principle of stability, whereby local authorities are subject to having "*financial sustainability, as well as balanced budget management, including the contingent responsibilities they take on*". So financial balance includes keeping a balanced budget, which according to what is set out in article 40 of the same document, means that income must cover all expenses and "*gross current income must be at least equal to current expenditure added to average amortization of medium and long-term loans*". It can therefore be stated that when income is not equal to expenditure, we have a situation of budget imbalance, putting municipal financial stability at risk.

Martins and Correia (2013) state that situations of financial imbalance in local authorities are the result of successive budget deviations. That is, deviations incurred continuously over time lead to budget deficits and consequently unfavourable situations representing problems of financial imbalance.

The concept of financial imbalance is understood by Lobo (2012, p.318) as "*a financial situation in the local authority where financial difficulties subsist, constantly over time, where municipal income obtained, including loans contracted, as well as transfers from central governments, is not sufficient to meet commitments to suppliers and credit institutions*"[2].

Lobo and Ramos (2011) argue that sub-national financial imbalance is revealed in two different ways, vertical financial imbalance and horizontal financial imbalance. Vertical financial imbalance occurs when a significant part of local government expenditure is supported by transfers from central government, leading to deficits, excessive expenditure and sub-national debt, due to sub-national governments' lack of concern about being self-sufficient (Lobo & Ramos, 2011). According to Rocha (2009), horizontal financial imbalance concerns the asymmetries between sub-national governments, since correction of that imbalance involves giving financial help to local governments that find themselves in unfavourable circumstances, and in that way placing all in an equal financial situation.

Municipal financial imbalance results from a deteriorating economic-financial situation, due to bad management of financial resources resulting in excessive expenditure. The greatest generating impact of this management occurs in the public finances of small municipalities, which are mostly dependent on transfers of a common nature (Gerigk & Clemente, 2011).

Almeida (2016) states that local government's financial imbalance is understood differently, according to short or long-term perspectives. For Kloah, Weissert and Kleine (2005, p.244), short-term financial imbalance is "*a municipality's inability to meet its commitments and make timely payments*". As for long-term financial imbalance, this is provoked when municipalities are unable to maintain normal internal functioning, handle an acceptable level of debt, and provide the population with fundamental services over time (Almeida, 2016).

Cunha and Silva (2002) claim that excessive recourse to short and long-term loans, to finance the difference between municipal expenditure and income, results in a situation of financial imbalance.

According to nº 1 of art. 52 of RFALEI, a local authority is in a situation of financial imbalance whenever the total debt of the budget operations of the municipality, including that of the entities set out in 54 of the same law, on 31 December each year reaches or exceeds 1.5 times the average net current income of the previous three years, including loans, leasing contracts and any other forms of debt with financial institutions and debt entities.

It would therefore be wrong to associate local authorities' financial imbalance with a single factor (Bovo, 2001). It is necessary to consider all the factors that can determine municipal financial imbalance. Pereira, Dias and Almeida (2016) highlight as the main causes contributing to financial imbalance socio-economic changes and the lack of management capacity. The authors justify the choice of socio-economic changes and lack of management capacity due to local authorities "*creating conditions for the development of investment policies, above their financial capacities, aiming to consolidate the population, especially in areas of low demographic density, and adopting management strategies that lead to over-budgeting, inevitably resulting in increased municipal debt*" (Pereira, Dias, & Almeida 2016, p.168).

Other studies emphasize that the structure of the population, especially population growth, can affect local authorities' economic wealth. Here, population growth increases demand for resources and services (Wang & Liou, 2009; Balaguer-Coll, Prior & Ausina, 2010; Balatsky, Balatsky & Borysov, 2015), which leads to an increase in local public expenditure, but often without the due increase in public income, since increased income does not depend only on population growth but also on the population's financial capacity and economic activity. Indeed, regional inequalities in population growth have a different effect on needs for service provision, such as water, refuse collection, energy, food, health or education (Choi, Bae, Kwon & Feiock, 2010), influencing regional economic development. So increased population can mean a greater amount of loans and public expenditure, increasing municipal debt (Choi, Bae, Kwon, & Feiok, 2010; Guillamón; Benito, & Bastida, 2011; Balaguer-Coll, Prior & Ausina, 2010), consequently leading to situations of financial imbalance.

More specifically, Kloha, Weissert and Kleine (2005) believe that the proportion of the population over 65 and under 16 is inversely related to municipal income and expenditure, has a significant influence on increased fiscal stress, and can therefore affect the local authority's sustainable economic development. The needs of the dependent population (under 16 and over 65) lead to an increased supply of public services by local authorities. So that population has a negative influence on expenditure per capita (Choi, Bae, Kwon & Feiok, 2010) and taxation, and consequently on local authorities' financial capacity, leading to a situation of financial imbalance (Gómez, Hernández, & Bastida, 2009; Bolívar, Galera, Muñoz, & Subires, 2016). Lobo (2012) studied those variables in Portuguese local authorities, but considering the dependent population as being under 15 and over 65.

Gross domestic product (GDP) is also considered an important factor related to councils' financial situation. Some studies show that gross domestic product (GDP) affects tax revenue (Easterly & Rebelo, 1993) and public debt (Feld & Kirchgässner, 1999).

From another perspective, and similarly to studies dealing with local debt (Ferreira, 2011; Bastida, Beyaert, & Benito, 2012; Ribeiro, Jorge, & Oliver, 2012) in financial imbalance (Lobo, 2012), another category of variables can also be indicated as potentially joining the explanatory factors of financial imbalance. Commonly studied variables are: governing majority, political ideology and political alternation. A negative relationship is generally found between the 'governing majority' variable and total municipal debt.

Concerning economic factors, Ladd and Yinger (1989) indicate changes in a territory's economic and social climate as potentially determinant factors of municipal financial imbalance. They underline that reduced fiscal capacity arises from rigorous limitation, resulting from the change in the universe of each local authority's taxpayers.

Other authors argue that local authority management plays a primary role in budget execution. Sometimes, local authorities are faced with insufficient income to cover unavoidable expenditure, making it necessary to obtain short-term financing. For example, Martin (1982) points to political and financial management as a determinant factor of municipal budget imbalance, stressing that as deficits accumulate and local authorities are no longer able to honour their commitments to creditors, this leads to municipal financial imbalance, hindering the provision of fundamental public services.
Also indicated as possible determinants of financial imbalance are variables related to financial aspects (Cabasés, Pascual, & Vallés, 2007; Macedo & Corbari, 2009; Ferreira, 2011; Lobo, 2012) such as: expenditure on staff, fiscal income, own income and investment expenditure.

3. Financial imbalance of Portuguese local authorities

3.1. Objective, data treatment and definition of the 'Financial imbalance' variable

This study aims to make a descriptive analysis of municipal financial imbalance, intending to identify its possible determinants. To this end, a brief descriptive statistical analysis of financial imbalance will be carried out, according to some characteristics of the population. In this context, the analysis relating the different levels of financial imbalance will be explained, according to the financial recovery mechanisms they can resort to, in order to understand the severity of the imbalance (optional financial restructuring, obligatory financial restructuring or financial recovery, obligatory financial recovery). This is studied according to the year, size, location, form of governance, political ideology and financial independence. There will be descriptive analysis of 308 observations in each year (2014, 2015 and 2016), corresponding to a total of 924, in relation to the different levels of financial imbalance, as a function of the financial recovery mechanisms they can resort to, based on Law nº 73/2013, of 3 September, for the period analysed.

Data were collected from several sources, such as the sites of the Local Authority Portal[3] - financial and budgetary data of municipalities, National Statistics Institute (INE)[4] - number of inhabitants to define the size of municipalities, National Programme for Territorial Cohesion (PNCT)[5] - data relating to the location of municipalities on the coastal or inland, and the National Elections Commission (CNE)[6] - electoral data that allow defining the variables: form of governance (majority and minority), political ideology (right and left).

In keeping with the aim of this research, municipal financial imbalance was defined as the variable to study. According to number 1 of art. nº 52 of RFALEI, and as already mentioned, a local authority is in a situation of financial imbalance whenever the total debt of the budget operations of the municipality, including that of the entities stipulated in article nº 54 of the same law, on 31 December each year reach or exceed 1.5 times the average net current income of the previous three years, including loans, financial leasing contracts or any other forms of debt from financial institutions and other parties.

Local authorities finding themselves in a situation of financial imbalance can turn to financial recovery mechanisms (art. nº 57 of RFALEI), namely, municipal financial restructuring and financial recovery.

In this context, considering that different levels of financial imbalance are studied, according to the financial recovery mechanisms they can turn to, one main variable and various secondary ones are defined.

The main variable, financial imbalance (DESQ_FIN) will take the value of '1' when for the period chosen (2014, 2015 and 2016), the total debt of municipal budget operations on 31 December reaches or exceeds 1.5 times the average net current income of the previous three years. It will take the value of ‘0’ otherwise, i.e., when the value is below 1.5. This is a dichotomic variable, since it presents one or other of two possibilities (Delgado & Gutiérrez, 1999; D’Ancona, 1999).

Considering that adopting financial recovery mechanisms is optional or obligatory according to the level of financial imbalance found on 31 December each year, and to deepen the analysis, some secondary variables were defined, considering those levels:

- Financial restructuring (SAN_FIN) if the total debt of municipal budget operations on 31 December is between 1.5 and 2.25 times the average of net current income in the previous three years;

- Obligatory financial restructuring or financial recovery (SAN_REC_FIN) if the total debt of municipal budget operations on 31 December is between 2.25 and 3 times the average of net current income in the previous three years;

- Obligatory financial recovery (REC_FIN) whenever the local authority is in a situation of financial collapse, i.e., if the total debt of its budget operations on 31 December is more than 3 times the average of net current income in the previous three years.

As with the main variable, the secondary variables will also take the value of ‘1’ when within the conditions defined for each, and ‘0’ otherwise.

3.2. Descriptive analysis

Table 1 reveals that the number of local authorities presenting financial imbalance has diminished over the period of study. It is noted that in 2014, 69 councils were in this situation, this being reduced by over 50% to reach a figure of 33 in 2016.

Concerning the different levels of imbalance, the same falling trend is found. In 2014, 13.3% of the 308 local authorities presented total debt of municipal budget operations on 31 December between 1.5 and 2.25 times the average of net current income in the previous three years (financial restructuring – SN_FIN), the figure falling to 5.2% in 2016.

Table 1: Municipal financial imbalance per year

Year	N	EQ_FIN	DESEQ_FIN	SAN_FIN	SAN_REC_FIN	REC_FIN
2014	308	239 77,6%	69 22,4%	41 13,3%	12 3,9%	16 5,2%
2015	308	263 85,4%	45 14,6%	25 8,1%	7 2,3%	13 4,2%
2016	308	275 89,3%	33 10,7%	16 5,2%	10 3,2%	7 2,3%
Total	**924**	**777** **84.1%**	**147** **15.9%**	82 8.9%	29 3.1%	36 3.9%

Local authorities in a situation of obligatory financial restructuring or financial recovery (SAN_REC_FIN), in 2014, represented 3.9% of all Portuguese councils. This figure increased in 2015, but fell once again in 2016 to 3.2%.

Regarding local authorities in obligatory financial recovery (REC_FIN), these represent a relatively small percentage (5.2% in 2014, 4.2% in 2015 and 2.3% in 2016) of all Portuguese councils.

As for municipal financial imbalance by size (Table 2), there seems to be some non-statistical evidence that large local authorities are less likely to find themselves in this situation. The results appear to be inconsistent with that advocated by Choi, Bae, Kwon, and Feiok (2010), Guillamón; Benito and Bastida (2011) and Balaguer-Coll, Prior and Ausina (2010).

The relationship between municipal financial imbalance (DESEQ_FIN) and size seems not to be linear, as of all observations of small local authorities, only 15.0% are found to be in this situation. When observing medium-sized ones, the figure rises to 19.4% and falls to 8.3% in large ones.

Table 2: Municipal financial imbalance by size

Size	Year	N	EQ_FIN	DESEQ_FIN	SAN_FIN	SAN_REC_FIN	REC_FIN
Small	2014	184	146 79,3%	38 20,7%	22 12,0%	6 3,3%	10 5,4%
	2015	184	158 85,9%	26 14,1%	14 7,6%	4 2,2%	8 4,3%
	2016	185	166 89,7%	19.00 10,3%	9 4,9%	6 3,2%	4 2,2%
	Total	**553**	**470** **85,0%**	**83** **15,0%**	45 8,1%	16 2,9%	22 4,0%
Medium	2014	100	71 71,0%	29 29,0%	17 17,0%	6 6,0%	6 6,0%
	2015	100	83 83,0%	17 17,0%	9 9,0%	3 3,0%	5 5,0%
	2016	99	87 87,9%	12.00 12,1%	5 5,1%	4 4,0%	3 3,0%
	Total	**299**	**241** **80.6%**	**58** **19.4%**	31 10.4%	13 4.3%	14 4.7%
Large	2014	24	22 91,7%	2 8,3%	2 8,3%	0 0,0%	0 0,0%
	2015	24	22 91,7%	2 8,3%	2 8,3%	0 0,0%	0 0,0%
	2016	24	22 91,7%	2 8,3%	2 8,3%	0 0,0%	0 0,0%
	Total	**72**	**66** **91.7%**	**6** **8.3%**	6 8.3%	0 0.0%	0 0.0%

It stands out that there are no large local authorities in a situation of obligatory financial restructuring or financial recovery (SAN_REC_FIN), or in obligatory financial recovery (REC_FIN).

Analysis according to size and year reveals that councils in financial imbalance (DES_FIN) have decreased in number, regarding both small and medium-sized ones. As for large councils, the figure remains constant over the three years of analysis, at 8.3%.

A local authority being situated on the coast or inland (Table 3) seems not to influence financial imbalance (DESEQ_FIN), since 14.2% and 16.9%, respectively, are in this situation.

For both locations, situations of financial imbalance (DESEQ_FIN) are seen to decrease in the period of analysis. Coastal councils changed from 20.4% to 9.7% and inland ones from 23.6% to 11.3%.

Levels of imbalance are relatively similar, irrespective of the location. For example, 4.4% of coastal councils are in financial recovery (REC_FIN), with the percentage of inland ones being quite similar, i.e., 3.6%. Also in relation to financial restructuring (SAN_FIN) the figures are similar, 8.0% and 9.4% respectively.

Table 3: Municipal financial imbalance by location

Location	Year	N	EQ_FIN	DESEQ_FIN	SAN_FIN	SAN_REC_FIN	REC_FIN
Coastal	2014	113	90 (79,6%)	23 (20,4%)	14 (12,4%)	3 (2,7%)	6 (5,3%)
	2015	113	99 (87,6%)	14 (12,4%)	8 (7,1%)	1 (0,9%)	5 (4,4%)
	2016	113	102 (90,3%)	11 (9,7%)	5 (4,4%)	2 (1,8%)	4 (3,5%)
	Total	**339**	**291 (85,8%)**	**48 (14,2%)**	27 (8,0%)	6 (1,8%)	15 (4,4%)
Inland	2014	195	149 (76,4%)	46 (23,6%)	27 (13,8%)	9 (4,6%)	10 (5,1%)
	2015	195	164 (84,1%)	31 (15,9%)	17 (8,7%)	6 (3,1%)	8 (4,1%)
	2016	195	173 (88,7%)	22 (11,3%)	11 (5,6%)	8 (4,1%)	3 (1,5%)
	Total	**585**	**486 (83,1%)**	**99 (16,9%)**	55 (9,4%)	23 (3,9%)	21 (3,6%)

For all levels of imbalance (SAN_FIN, SAN_REC_FIN e REC_FIN), a decrease is found from 2014 to 2016, in both coastal and inland local authorities.

There seems to be non-statistical evidence that local authorities governed by a minority are more likely to find themselves in situations of financial imbalance (DESEQ_FIN), as shown by analysis of the following table. Only 15.0% of local authorities governed by a majority are observed to be in DESEQ_FIN. In minority governments, this figure rises to 21.4%.

The values have diminished during the period of analysis, both in councils governed by a majority and those governed by a minority. In the former group, the figure dropped from 21.1% to 10.5% and in the latter from 31.0% to 11.9%.

The percentage of local authorities at the various levels of imbalance (SAN_FIN, SAN_REC_FIN and REC_FIN) is also always higher in minority governments than in majority ones. The greatest difference is found in financial restructuring (SAN_FIN), since this presents a figure of 8.4% in councils governed by a majority and 1.9% in those governed by a minority.

Table 4: Municipal financial imbalance by form of governance

Form of Governance	Year	N	EQ_FIN	DESEQ_FIN	SAN_FIN	SAN_REC_FIN	REC_FIN
Majority	2014	266	210 (78,9%)	56 (21,1%)	34 (12,8%)	8 (3,0%)	14 (5,3%)
	2015	266	230 (86,%%)	36 (13,5%)	19 (7,1%)	6 (2,3%)	11 (4,1%)
	2016	266	238 (89,5%)	28 (10,5%)	14 (5,3%)	9 (3,4%)	5 (1,9%)
	Total	**798**	**678 (85,0%)**	**120 (15,0%)**	67 (8,4%)	23 (2,9%)	30 (3,8%)
Minority	2014	42	29 (69,0%)	13 (31,0%)	7 (16,7%)	4 (9,5%)	2 (4,8%)
	2015	42	33 (78,6%)	9 (21,4%)	6 (14,3%)	1 (2,4%)	2 (4,8%)
	2016	42	37 (88,1%)	5 (11,9%)	2 (4,8%)	1 (2,4%)	2 (4,8%)
	Total	**126**	**99 (78,6%)**	**27 (21,4%)**	15 (11,9%)	6 (4,8%)	6 (4,8%)

For majority-governed councils, the percentage of those in obligatory financial restructuring or financial recovery (SAN_REC_FIN) is seen to increase from 2014 (3.0%) to 2016 (3.4%).

Political ideology seems not to influence financial imbalance (DESEQ_FIN), considering that the figures are very similar, 16.0% and 15.9%, respectively, for those led by parties on the right and left (Table 5). The results are in line with those obtained by Ribeiro, Jorge and Oliver (2012) and Lobo (2012).

Table 5: Municipal financial imbalance by political ideology

Political Ideology	Year	N	EQ_FIN	DESEQ_FIN	SAN_FIN	SAN_REC_FIN	REC_FIN
Right	2014	117	87 (74,4%)	30 (25,6%)	23 (19,7%)	3 (2,6%)	4 (3,4%)
	2015	117	101 (86,3%)	16 (13,7%)	11 (9,4%)	2 (1,7%)	3 (2,6%)
	2016	117	107 (95,1%)	10 (8,5%)	6 (5,1%)	2 (1,7%)	2 (1,7%)
	Total	**351**	**295 (84,0%)**	**56 (16,0%)**	40 (11,4%)	7 (2,0%)	9 (2,6%)
Left	2014	191	152 (79,6%)	39 (20,4%)	18 (9,4%)	9 (4,7%)	12 (6,3%)
	2015	191	162 (84,8%)	29 (15,2%)	14 (7,3%)	5 (2,6%)	10 (5,2%)
	2016	191	168 (88,0%)	23 (12,0%)	10 (5,2%)	8 (4,2%)	5 (2,6%)
	Total	**573**	**482 (84,1%)**	**91 (15,9%)**	42 (7,3%)	22 (3,8%)	27 (4,7%)

It stands out that for both types of ideology, there is a reduction in the number of councils with financial imbalance (DESEQ_FIN), during the period of analysis. In local authorities led by right-wing parties, the figure falls considerably from 25.6% in 2014, to 8.5% in 2016. In those led by parties on the left, the fall is from 20.4% to 12.0%.
Analysis of the different levels of financial imbalance (SAN_FIN, SAN_REC_FIN and REC_FIN) allows the conclusion that generally there has been a reduction, for both types of ideology.

In local authorities governed by right-wing parties, a great many of those in financial imbalance (DESEQ_FIN) (16.0%) are at the level of financial restructuring (SAN_FIN) (11.4%).

Finally, analysis of the following table reveals there seems to be non-statistical evidence that local authorities without financial independence are more likely to present financial imbalance (DESEQ_FIN). This group presents a figure of 18.1%, whereas for those with financial independence the percentage is only 9.9%.

Table 6: Municipal financial imbalance by financial independence

Financial Independence	Year	N	EQ_FIN	DESEQ_FIN	SAN_FIN	SAN_REC_FIN	REC_FIN
With independence	2014	73	65 (89,0%)	8 (11,0%)	5 (6,8%)	0 (0,0%)	3 (4,1%)
	2015	79	71 (89,9%)	8 (10,1%)	5 (6,3%)	0 (0,0%)	3 (3,8%)
	2016	91	83 (91,2%)	8 (8,8%)	5 (5,5%)	1 (1,1%)	2 (2,2%)
	Total	**243**	**219 (90,1%)**	**24 (9,9%)**	15 (6,2%)	1 (0,4%)	8 (3,3%)
Without independence	2014	235	174 (74,0%)	61 (26,0%)	36 (15,3%)	12 (5,1%)	13 (5,5%)
	2015	229	192 (83,8%)	37 (26,2%)	20 (8,7%)	7 (3,1%)	10 (4,4%)
	2016	217	192 (88,5%)	25 (11,5%)	11 (5,1%)	9 (4,1%)	5 (2,3%)
	Total	**681**	**558 (81,9%)**	**123 (18,1%)**	67 (9,8%)	28 (4,1%)	28 (4,1%)

The previous tendency is found at all levels of financial imbalance, according to the financial recovery mechanism they can resort to (SAN_FIN, SAN_REC_FIN and REC_FIN).

Analysis by year provides evidence of a falling tendency between 2014 and 2016, except at the level of obligatory financial restructuring or financial recovery (SAN_REC_FIN) which increased, in local authorities with financial independence, from 0,0% to 1,1%.

4. Conclusion

Financial imbalance is one of the retroactive factors in local authorities' financial development. This occurs due to the excessive use of short and long-term loans to finance the difference between municipal expenditure and incomes.

The international literature identifies various determinants of municipal financial imbalance, which can be grouped in several dimensions: socio-demographic (e.g. size, location, income), political (e.g. form of governance, political ideology, political alternation) and financial/budgetary (e.g. investment, expenditure on staff, capital income, transfers from Central Administration, financial independence).
The aim of this study was to describe, based on various factors, the financial imbalance of the 308 Portuguese local authorities, in the period 2014 to 2016. Descriptively, the analysis allowed identification of its possible determinants, thereby contributing to greater scientific knowledge about this phenomenon.

In general, the descriptive analysis made allowed the following statements:

- Local authorities' financial situation improved during the period of analysis, with a reduction in the number finding themselves in financial imbalance;

- There is non-statistical evidence that large local authorities are less likely to present a situation of financial imbalance;

- Local authorities led by a minority, and those without financial independence, are more likely to present financial imbalance;

- Political ideology (parties on the right or left) and councils' location (coastal or inland) seem not to influence their financial imbalance.

It is considered that the results obtained can be relevant for policy-makers and political managers interested in promoting financial balance in local government.

As a descriptive analysis was only made of some variables likely to influence financial imbalance, it is fundamental that future research deepens the analysis. It will therefore be necessary to carry out a multivariate analysis (for example, logistic regression), to allow the inclusion of more explanatory variables of municipal financial imbalance.

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Notes

[1] Updated by Law nº 51/2018, of 16 August.

[2] In this connection, see Law nº 8/2012, of 21 February, which approves the rules applicable to meeting commitments and payments in arrears by public entities.

[3] http://www.portalautarquico.dgal.gov.pt

[4] http://www.ine.pt

[5] http://www.pnct.gov.pt

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