

Chapter 4

Sustainability Assessment of Portuguese Local Governments (2009 to 2017): Accounting Information and Public Governance

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ABSTRACT

Public governance must ensure financial sustainability. This investigation aims to assess Portuguese local governments financial sustainability as the ability to service the upcoming obligations in commercial transactions (under the Late Payment Directive framework) and to study if accounting information enables public local governance with greater transparency and accountability about their financial sustainability. The study will focus on the 308 Portuguese local governments from 2009 to 2017. The number of local governments with average payment periods (PMPs) within 30 days had an increasing tendency. However, their adjusted average payment periods greatly exceed the 30 days, which means limited financial sustainability. In 2017, only 29% of the local governments have an adjusted PMP within 30 days against the 63% if it is used the officials PMPs. Therefore, accounting information does not enable public governance with greater transparency and accountability about Portuguese local government financial sustainability.

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1. INTRODUCTION

Over the past decade the emphasis in the literature on public sector management reforms has gradually changed from focusing on the management of individual organizations to broader concerns with the governance of complex systems of service provision (Wiesel & Modell, 2014). Values such as accountability and transparency can be perceived in the reforms under the *New Public Management* theory (NPM) (Vigoda-Gadot & Meiri, 2008) and the *New Public Governance theory* (NPG) (Wiesel & Modell, 2014).

Accountability is the relationship between the state and the society in providing – and demanding – better governance (OECD, 2013). Public governance refers to the formal and informal arrangements that determine how public decisions are made and how public actions are carried out, from the perspective of maintaining a country's constitutional values when facing changing problems and environments. The principal elements of good governance refer to accountability, transparency, efficiency, effectiveness, responsiveness and rule of law (OECD, 2013). Hood (2010) stresses the relationship between accountability and transparency as principles of governance. In this context, accounting information enable public governance with greater transparency and accountability. However, this presuppose that accounting information is reliable.

Transparency is in Article 19 of the Lei de Enquadramento Orçamental (Lei 151/2015, September 11th), constituting the provision of reliable, comparable information that allows a precise assessment of the costs and benefits of Public Administration activities, including their current and future economic and social consequences.

One of the challenges faced by public governance, namely as a result of the last international financial crisis, is to ensure financial sustainability. International organizations such as European Parliament (EP) (2009), European Commission (EC) (2011) and International Monetary Fund (IMF) (2014) recommended governments to adopt strategies for the financial sustainability of their public policies.

Financial sustainability can be defined as the ability to service all commitments (CICA, 2009; IFAC, 2013; EC, 2011; Lei 151/2015, September 11th & Lei 73/2013, September 3rd republished by Lei 51/2018, August 16th).

EP (2009) highlighted that late payments have a negative impact on businesses sustainability, particularly on small and medium sized enterprises (SMEs). In response to those concerns, EC has made several efforts over the past years to address this issue. The Directive 2011/7/EU on combating late payments in commercial transactions (within both the public and private sector) committed EU Member States to give effect in their national laws by the 16th of March 2013, date on which it replaced the original Directive 2000/35/EC, which featured the same objectives.

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