


## Current transfer revenues in the municipal budget of São Mateus, ES (Brazil)

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### ABSTRACT

This study aims to understand the effects of current transfer criteria on the municipal budget of São Mateus, ES. It addresses the revenues from current transfers, the budget of São Mateus and its public and budgetary management. We used horizontal and vertical analysis, comparing budget management with another similar state municipality. The results show that São Mateus' budgetary autonomy depends mainly on ICMS and FPM. Budget history and the increase in long-term assets without equity coverage may indicate structural problems. This study quantifies the revenues from current transfers and their impact on the budget and public management of São Mateus - ES. We explore apportionment criteria, such as demographic profile and economic performance. This study contributes theoretically and in practice, highlighting the dependence of these revenues on the municipal budget and reflecting on public management and fiscal balance.

**Keywords:** Current Transfers, Municipal Budget, Public Management.

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## INTRODUCTION

The municipality of São Mateus, in the Brazilian context, faces a reality that resembles that of many other municipalities. The difficulty in providing essential services, such as health and education, is a recurring issue. Many public managers justify this lack of care by alleging a lack of resources to cover the entire population. Faced with this situation, two hypotheses emerge: the first suggests that the distribution of resources among the different levels of government is inadequate, while the second points to the misuse of available resources. However, to formulate solid conjectures, it is essential to understand the functioning of public administration.

The Federative Republic of Brazil adopted a model that reflects the principles that inspired the French Revolution, gradually transferring control over the patrimony from the state to the people. This has resulted in a new approach to public administration, in which the government deals with the conflict between scarce resources and the growing needs of the population. In this context, planning plays a crucial role.

Planning, based on the 1988 Federal Constitution, is the responsibility of the Executive Branch and is guided by the Multi-Year Plan Laws, Budget Guidelines and Annual Budgets. These instruments provide the guidelines for the budget cycle, allowing public managers to control and plan the execution of the budget. However, tax capacity and competence play a key role in this process.

Obtaining resources to meet the needs of the population is essential for each public entity. The Public Finance Law, established by Law No. 4320 of 1964, classifies public revenues into two economic categories: Capital Revenues and Current Revenues. Within current revenues, we find current transfers, which play a relevant role in the distribution of resources, mitigating inequalities resulting from tax powers and collection capacity.

Tax competence is the authority conferred by the Federal Constitution on federative entities to institute taxes in their territories, being non-transferable and non-waivable. It differs from tax capacity, which refers to the entity's ability to collect, supervise and collect taxes, and can be delegated to third parties, whether public or private.

In the current scenario, the centralization of resources in the Union results in a significant dependence of municipalities on the federal government. In this context, tax reform proposals have emerged that aim at a better distribution of resources among the different levels of government.

As we examine budget histories, the growing demand for current transfers becomes evident, revealing a model of budget dependency. This leads us to question not only whether there is a poor distribution of revenues, but also whether public spending is increasing unsustainably, that is, in a way that is incompatible with the availability of the public entity.

The prospects for changes in the management of public resources have been the subject of debates not only among federative entities, but also among citizens who yearn for more efficient



public management. They note that the current tax system centralizes competences in higher public bodies and wonder what is the impact of this dependence on intergovernmental transfers in municipalities.

The analysis of this scenario can reveal the factors that influence the performance of public functions in different locations. This may be a result of the distribution of resources that may or may not fit into social arrangements. Understanding these dynamics is crucial for public administrators, investors, and citizens who want to drive change in their communities.

This study analyzes the impacts of the criteria of current transfers on the municipal budget of São Mateus, ES, and evaluates the budget management, relating the municipality's revenues to public management indicators. Two hypotheses guide the work: the poor distribution of funds among the governmental levels contributes to the scarcity of resources in the municipalities, affecting health and education, and the inefficient management of public resources impairs support in these areas, even with available resources.

## **MUNICIPAL PUBLIC MANAGEMENT AND LOCAL DEVELOPMENT IN SÃO MATEUS**

Municipal public management plays a fundamental role in the organization and promotion of local development. In this article, we explore the case of the municipality of São Mateus, highlighting its history, challenges, and management strategies.

The history of São Mateus' emancipation as a municipality has deep roots. Initially, the region faced conflicts between Portuguese colonizers and indigenous communities that inhabited the area of the Cricaré River. Only after a reduction in these conflicts did the region begin to receive an increasing number of settlers, boosting development. The production of cassava flour has played a significant role in the local economy, leading to the need for port infrastructure to export these agricultural products.

The historical context of São Mateus also included the marked presence of slaves and Italian immigration. These events shaped the demographics of the city, resulting in the formation of traditional quilombola communities and the presence of descendants of Italians. (Kohlsdorf, et al., apud Nardoto, 2004)

The elevation of São Mateus to the category of Village occurred later, motivated by the need to control the outflow of gold and the coastal defense strategy. This involved the creation of government structures along the rivers that flowed into the region, especially the São Mateus River. City status was finally achieved on April 3, 1848, with the enactment of a provincial act. The commemoration of emancipation takes place on September 21, a tribute to the evangelist São Mateus, the name given to the city by Father José de Anchieta. (Kohlsdorf, et al., apud Nardoto, 2004)



In the 1950s and 1960s, many Brazilian municipalities sought emancipation, influenced by the tax distribution system favorable to younger and economically disadvantaged municipalities. The 1946 Constitution introduced criteria for the distribution of resources, such as equal quotas for taxes on income and consumption of goods, under the responsibility of the Union at the time. In 1967, Complementary Law No. 01/67 established stricter requirements for the creation of municipalities, including a population of more than 10,000 inhabitants, an electorate representing 10% of the population, and a collection equivalent to 0.005 of state tax revenue in the previous year. These requirements aim to protect social rights, such as education, health, and housing, as established in the Federal Constitution.

Health, education, and employment and income are crucial elements in the context of development. These aspects are intertwined and mutually reinforcing. FIRJAN - Federation of Industries of the State of Rio de Janeiro - monitors municipal development through the IFDM (FIRJAN Municipal Development Index), which is based on official public statistics. This index ranges from 0 to 1, with values closer to 1 indicating a higher level of local development.

In 2016, São Mateus recorded its worst performance in the IFDM since 2005, reaching 0.7300 in the indicator. This decline is related to a perception of declining development, particularly in relation to employment and income. This downward trend began to be observed by FIRJAN since 2014, in the midst of a severe recession that resulted in significant losses in labor market indicators. In 2016, the municipality was unable to keep up with the slight recovery, resulting in a ranking of 1518th place among the 5,471 municipalities in Brazil and 28th place at the state level, which covers 78 municipalities.

The tertiary sector has a predominance in the economic profile of São Mateus, representing 51% of the total economic activities in 2018, according to IBGE data. The agricultural sector is marked by a concentration of land ownership, influenced by the former Aracruz Celulose and the sugar and ethanol mills that have acquired small properties.

## **METHODOLOGICAL PROCEDURES**

In this study, we adopted a methodological approach that combines qualitative and quantitative methods commonly used in applied social science research. This provided a comprehensive understanding of the topic. We focus on public management at the municipal level, using mainly up-to-date sources, including IBGE data, FIRJAN reports, and the 1988 Federal Constitution related to public management.

We use secondary data from reliable sources, such as SICONFI, IBGE, Federal Revenue, National Treasury and others. We analyzed budget and equity statements horizontally and vertically to infer characteristics of the municipal situation.

For comparison, we chose the municipalities of Guarapari and Colatina in relation to São Mateus, considering criteria for intergovernmental transfers, influence of the state and demographic scope. We opted for Colatina, which is more similar to the reality of the north of the state.

We evaluated the perception of public management by citizens through the per capita ratio of direct beneficiaries to health and education expenditures. We also relate the main sources of revenue with demographic, territorial, and economic characteristics of each municipality. The survey covered the period from 2016 to 2020, providing an updated view of the situation in the municipality of São Mateus, ES.

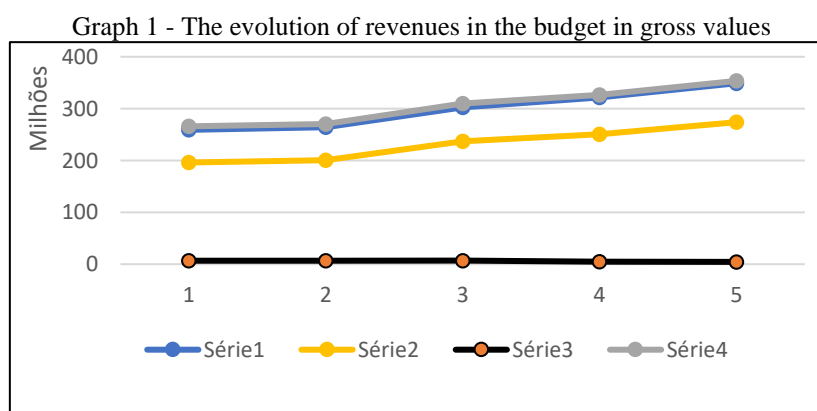
## DATA ANALYSIS AND DISCUSSION

To start the analysis of the results, we look at [Graph 1] to understand the evolution of revenues in the budget of São Mateus in the period from 2016 to 2020.

From [Chart 1], it is evident that capital receipts declined, both in absolute and percentage terms, during the mentioned period. The absolute reduction was 34.91%. Of particular note is the sharp decrease that occurred from 2018 to 2019, corresponding to 85.41% of the total reduction in the period from 2016 to 2020.

This significant reduction can be explained mainly by the difference associated with the transfer of agreement number 118/2018, established between SEDURB/ES and the Municipality of São Mateus. The purpose of this agreement was to build slope containment and drainage of the Besouro slope, located in the center of the city of São Mateus. The absence of this transfer in 2019 had a significant impact on the municipality's capital revenues.

This reduction in capital revenues may indicate financial challenges faced by the municipality, affecting its ability to invest in infrastructure and development projects.



Source: Authors, with data extracted from SICONFI

Although capital revenues do not make up a significant portion of the municipality's total revenues in absolute terms, the phenomenon previously reported demonstrates the sensitivity of these

revenues to transfers, indicating the influence of current resources to sustain investments in new goods or services. This suggests that the municipality may rely heavily on transfers to fund its infrastructure and development projects.

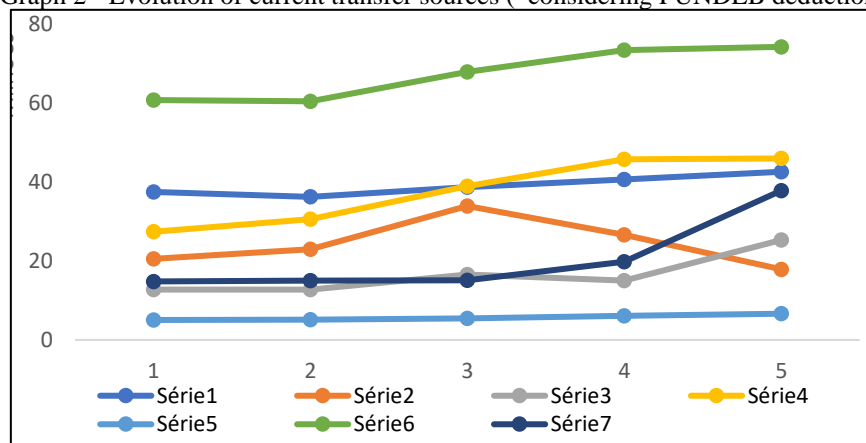
In the same [Chart 1], during the period from 2016 to 2020, it is observed that revenues from current transfers had a significant impact on the increase in budget availability. They presented an absolute increase of R\$ 77,649,876.84, representing a percentage increase of 39.58%. This increase is remarkable and demonstrates the importance of current transfers to the municipality.

In addition, it is relevant to highlight the impact of current transfer revenues on total current revenues. As revenues from current transfers grow, there is a considerable increase in current revenues in terms of similar coefficients. On average, during the five years analyzed, transfers corresponded to 3/4 (three-quarters) of budget revenues. This suggests the municipality's dependence on these transfers to finance its current expenses.

The high trajectory of current transfer revenues observed in [Chart 1] in the period from 2016 to 2020 can be explained by the significant increase in transfers of ICMS, FUNDEB, royalties from the exploration of natural resources (mainly oil, until 2018), as well as transfers from the FPM and the Unified Health System (FNS). In addition, there was a compensation of revenues from other current transfers due to the drop in transfers of royalties from the exploitation of natural resources as of 2018, as evidenced in [Chart 2].

This increase in revenues from current transfers is a positive indicator for the municipality, since it provides greater financial flexibility to meet current demands and expenses, such as health, education and public services in general. However, it also highlights the importance of monitoring the stability of these transfers and diversifying revenue sources to reduce dependence on external transfers.

Graph 2 - Evolution of current transfer sources (\*considering FUNDEB deductions)



Source: Authors, with data extracted from SICONFI



In 2020, we observed a sudden and significant growth in the transfers of other current transfers, which is justified by transfers from the Federal Government to the municipality of São Mateus in the total amount of R\$ 19,407,854.24. These transfers were carried out in accordance with Complementary Law No. 173, of May 27, 2020, which aimed to provide financial support to combat COVID-19 and mitigate its financial effects. These funds were distributed in four installments between the months of June and September of that year. This phenomenon is evidenced in [Chart 2] and represents a significant injection of resources into the municipality's budget in response to the pandemic.

[Chart 2] also shows a considerable increase in the share of ICMS and FUNDEB during the period analyzed. Although, at first glance, they may seem uncorrelated, it is important to note that FUNDEB is mainly composed of state and municipal taxes. Therefore, any increase in the collection of these taxes within the state directly affects FUNDEB's revenue for the municipality.

The ICMS distribution criteria for the municipality of São Mateus depend on the Fiscal Value Added and the Municipal Participation Index. Although these criteria may vary over the period analyzed, they alone do not justify the growth coefficient observed in the participation of the municipality, as evidenced in [Table 1]. However, when considering the general collection of ICMS within the state, there is an increase in the total collection, which influenced not only the municipality's share, but also the revenue of FUNDEB.

This increase in overall ICMS revenue can be attributed to several factors, such as the state's economic growth, changes in tax legislation, and the performance of specific sectors of the economy. However, it is important to note that while the municipality has benefited from this increase in revenue, it may also be vulnerable to fluctuations in the state economy that directly impact its revenues.

The analysis of these data highlights the complex interconnection between the different sources of revenue and the distribution criteria that affect the municipal budget. It is crucial for public management to understand these dynamics in order to make informed and strategic decisions in financial planning and meeting community demands.

Table 1 - Variations in the criteria that influenced the distribution of ICMS for São Mateus

Year	ICMS collection in ES	$\Delta$ ICMS	VAF	$\Delta$ VAF	IPM	$\Delta$ IPM
2016	R\$ 8.804.535.592,57		1,0294%		1,93%	
2017	R\$ 9.262.578.067,35	5,20%	1,1014%	6,99450%	2,01%	4,463%
2018	R\$ 10.214.207.035,68	10,27%	1,0433%	-5,27792%	1,94%	-3,577%
2019	R\$ 11.451.849.965,13	12,12%	0,9398%	-9,92092%	1,80%	-7,213%

Source: Authors, with data extracted from SEFAZ/ES (year)

Although FUNDEB makes up most of the municipal budget of the municipality of São Mateus, it is important to note that the resources linked to this fund are exclusively intended for actions in the public education service. This limits the municipality's ability to direct these resources to other areas, even though there has been an increase in availability over time through this fund, as in the case of current transfers to the Unified Health System (FNS).

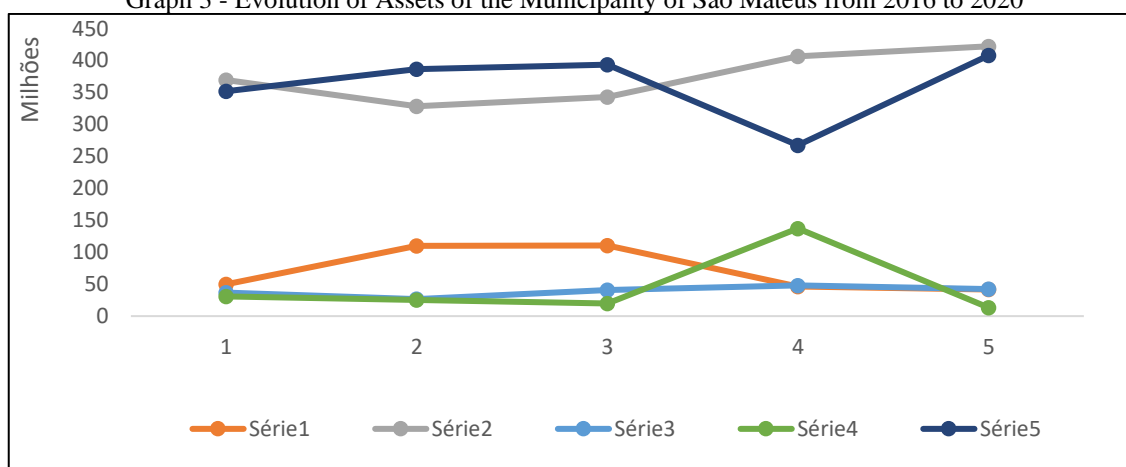
In this context, the municipality of São Mateus needs to make strategic use of the other main sources of revenue that do not have specific links, such as the Municipal Participation Fund (FPM) and the ICMS quota. These revenues offer greater autonomy to the Municipal Executive Branch in budget planning and resource allocation in accordance with the Multi-Year Plan (PPA) and the Budget Guidelines Law (LDO).

However, it is important to note that, considering the constitutional limits on the application of resources in health and education, the municipality still has certain restrictions in relation to about half of the availability of current transfers, which should be directed mainly to these areas.

Relating these links with the FIRJAN Municipal Development Index (IFDM) of São Mateus, mentioned earlier in the work, we can observe a good overall performance of the municipality in the two areas most linked to budgetary resources, i.e., health and education. However, in other development indicators, such as Employment & Income, there are opportunities for improvement in public planning that can contribute to the overall development of the municipality.

Now, moving on to the analysis of the equity phenomena in the Municipality of São Mateus, in [Chart 3], we highlight the accounts of non-current liabilities in mirroring shareholders' equity in the years 2018 to 2020. However, these accounts mainly reflect mathematical provisions for social security benefits granted in 2019 and their reversal in the following year.

Graph 3 - Evolution of Assets of the Municipality of São Mateus from 2016 to 2020



Source: Authors, with data extracted from SICONFI

It is observed that the Current Assets (AC) and Current Liabilities (PC) accounts showed significant differences in their balances in 2017 and 2018. This phenomenon is the result of the



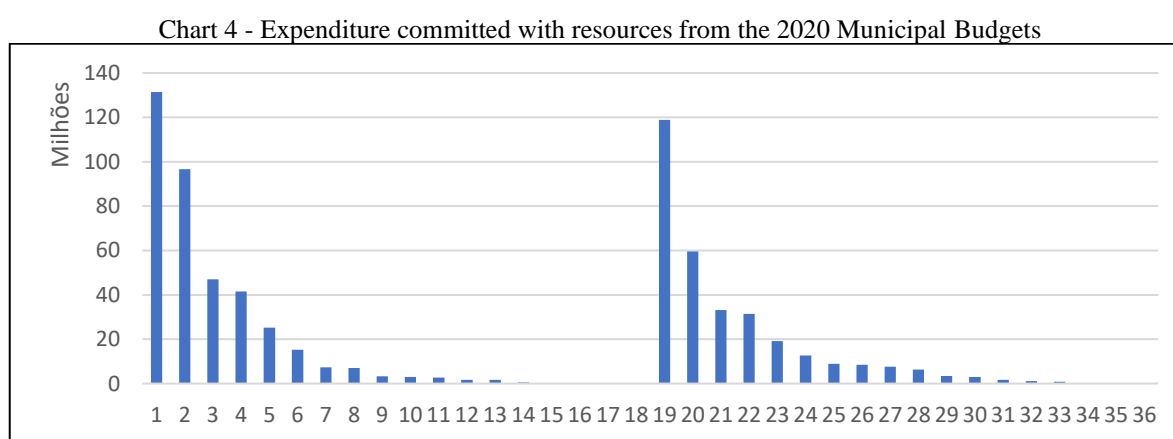
increase in short-term credits of the Active Tax Debt. However, over the following years, this difference narrowed, reaching an equilibrium between these accounts, albeit slightly below the desirable current ratio level (1).

In addition, it is interesting to note that the accounts of Non-Current Assets (NCA) and Shareholders' Equity (PL) showed a difference in relation to Current Assets in the years 2017 and 2018. This was due to an increase in the cash equivalents of own origin, represented by the short-term loans mentioned above, which helped to offset the long-term assets. However, excluding the provisions and their reversals, in the following years, Shareholders' Equity returned to the same levels as in 2016. Concomitantly, Current Liabilities had a gradual increase during the analyzed period, no longer offsetting Non-Current Assets.

When the balance of Shareholders' Equity is lower than that of Non-Current Assets, this indicates that the resources that make up long-term investments are also financed by tertiary sources, which, disregarding the mathematical provision for the 2019 fiscal year, are mainly related to Current Liabilities, specifically to labor, social security, assistance and tax obligations.

Considering the equity condition of the entity and the analysis of the sources of funds made previously, their destinations were studied to show the committed expenses and their respective availability in the same period, which is predominantly focused on the 2020 fiscal year.

[Graph 4] shows that the municipality of São Mateus is responsible for spending on education and health. These expenses are directly related to the revenues linked in their coffers, such as FUNDEB and FNS, and are also in compliance with the constitutional minimum limits established for these areas.



Source: Prepared by the authors, according to Open Data of the State of Espírito Santo

In relation to Colatina, although it also considerably links its expenses to the areas of health and education, the order of importance is reversed. Health expenditures in Colatina are highlighted

due to the fund's criteria, which, in addition to verifying the population contingent, also outlines the epidemiological profile, identifying the needs and capacities of the local health system.

When analyzing the expenses, it is observed that, in São Mateus, more than half of the resources committed (56.44%) in 2020 were directed to the areas of health and education, as previously mentioned in the analysis of the composition of the earmarked revenues.

More broadly, there are differences in budget revenues between the two municipalities. In 2020, according to data from the Control Panel of TCEES (Court of Auditors of Espírito Santo), Colatina had a collection of R\$ 446.07 million, which places it in eighth place in absolute terms among the municipalities of Espírito Santo. However, when considering the optics per capita, Colatina ranks 38th. On the other hand, São Mateus raised R\$ 330.42 million and stood out in 11th place in absolute terms in the state context, but ranked 75th in the per capita ranking.

According to data from TCEES and relating the budget difference with Colatina, it was observed that São Mateus presented a deficit in its accounts in the 2020 fiscal year, since its committed expenses exceeded the revenues collected by about R\$ 3.26 million, as evidenced by [Table 2].

Table 2 - Budget Execution of São Mateus from 2016 to 2020 (\*committed expenditures)

Budget	2016	2017	2018	2019	2020
<b>Expenditure*</b>	R\$ 271.955.306,36	R\$ 253.784.086,66	R\$ 278.819.857,57	R\$ 304.873.102,57	R\$ 333.679.460,07
<b>Revenue</b>	R\$ 248.845.741,60	R\$ 253.124.813,06	R\$ 289.427.478,99	R\$ 303.550.234,71	R\$ 330.415.607,97
<b>Difference</b>	-R\$ 23.109.564,76	-R\$ 659.273,60	R\$ 10.607.621,42	-R\$ 1.322.867,86	-R\$ 3.263.852,10

Source: Authors, with data extracted from TCEES (year).

In 2020, the largest difference in collection observed between the two municipalities, São Mateus and Colatina, is due to Colatina's significant participation in the National Health Fund (FNS) and also to its own revenues from general administrative and commercial services, the latter source being responsible for an amount of R\$ 47,440,236.91 alone.

The perception of budget commitments depends on several factors, including subjective factors, and may partially reflect satisfaction with municipal public services. Therefore, when considering the number of beneficiaries of the health and education functions of the municipal entity, it is possible to establish a trend of assimilation of the applications, as shown in [Table 3].



Table 3 - *Per capita perception* of health and education expenditures in São Mateus and Colatina in 2020

Municipality	Civil service	Per capita criterion	Assessment	Committed Expenditure	Per capita expenditure
Colatina	Education Expenses	Number of students in the municipal network	15.207	R\$ 96.700.789,92	R\$6.358,97
	Health Expenses	Total inhabitants	124.283	R\$ 131.428.118,71	R\$ 1,057.49
São Mateus	Education Expenses	Number of students in the municipal network	17.407	R\$ 118.917.967,63	R\$ 6,831.62
	Health Expenses	Total inhabitants	134.629	R\$ 59.606.153,43	R\$ 442,74

Source: Prepared by the authors, according to Open Data from ES (2020), IBGE (2021) and INEP (2019)

When analyzing the per capita criterion of health expenditures, a disparity between the municipalities is evident. However, as mentioned earlier, the criteria for distributing the resources of the National Health Fund (FNS) are not limited only to the number of inhabitants. The epidemiological picture and local needs also play an important role in the allocation of these resources. Although the per capita apportionment criterion in [Table 3] was used to demonstrate the perception of investment, it is crucial to remember that this perception may vary based on specific health factors in each municipality.

However, considering exclusively the entire population, it is possible to observe that Colatina has a greater capacity to serve its citizens through its budget. The TCEES Control Panel also shows that Colatina has 223 health facilities, while São Mateus has 139 health care units.

Regarding the per capita criterion, the population of São Mateus increased from 126,437 to 132,642 inhabitants from 2016 to 2020, representing an increase of almost 5%. However, this population increase is lower, for example, than the increase in FUNDEB transfers, which had an increase of about 22% in the same period.

The reflexes of the FUNDEB distribution criteria are related to the number of enrollments in public basic education networks, and a similar perception of investment is observed when considering the per capita criterion. However, the number of students enrolled in basic education schools linked to the government depends on the demographic profile of each municipality. The last IBGE census showed that São Mateus has a greater presence of children and young people in its age composition, which may be related to the higher number of students enrolled in relation to Colatina. In addition, other factors, such as school dropout and age-grade distortion, also influence the number of enrolments.

From the state perspective, and considering that the ICMS represents the second largest relevance in São Mateus' budget in 2020, it is interesting that the municipal manager explores opportunities to increase his participation in availability through the Municipal Participation Index



(IPM). To understand the dynamics of the transfers, [Table 4] makes a comparison with the municipality of Colatina.

Table 4 - Influence of ICMS distribution criteria on the final MPI in 2019

YEAR	MUNICIPALITY	VAF	AREA OF THE MUNICIPALITY	UP CLOSE. RURAL	PROD. AGROP.	HEALTH MANAGEMENT	HEALTH AND SANITATION EXPENDITURES.	CONSÓRCIO SERV. OF HEALTH	DISTRIB. VAF	IPM
2019	São Mateus	0,9398	0,254210284	0,242183629	0,26447468	0,036765	0,04894179	0,014705882	0	1,801
	Colatina	1,6361	0,151642443	0,195966703	0,08799503	0,036765	0,07807308	0,014705882	0	2,201
% change		-42,56%	67,64%	23,58%	200,56%	0,00%	-37,31%	0,00%	0,00%	-18,18%
Weight in ICMS		75,0%	5,0%	7,0%	6,0%	2,5%	3,0%	1,0%	0,5%	100%

Source: Prepared by the authors, according to data extracted from SEFAZ/ES

The final analysis highlights the importance of the Fiscal Value Added (VAF) as the main component in the formation of the Municipal Participation Index (IPM) and, consequently, in the distribution of ICMS resources among the municipalities of Espírito Santo. The significant difference in VAF between São Mateus and Colatina indicates that Colatina has a more robust commercial activity, reflecting in its higher ICMS collection.

The analysis shows that, in 2019, Colatina had a substantially higher added value than São Mateus, which contributed to its higher position in terms of IPM and, consequently, ICMS transfer. This difference is influenced by economic activity, including trade and other business activities.

However, it is observed that São Mateus made investments in 2020, aimed at the promotion of commerce and services, through the Municipal Department of Tourism, with specific expenses aimed at festivities, cultural and recreational events, as well as the Summer of Guriri, a beach and local tourist spot. These investments can be interpreted as a strategy to stimulate economic and commercial activity in the municipality, which, in turn, could increase the VAF in the future and improve the municipality's participation in the distribution of ICMS.

In summary, the analysis highlights the complexity of the factors that influence the collection of ICMS and the distribution of resources among municipalities. Strategic investments, such as those mentioned to promote tourism and trade, can have a positive impact on VAF and, consequently, on the financial situation of São Mateus.

## FINAL THOUGHTS

The analysis of current transfer revenues in São Mateus revealed important conclusions. The reliance of these transfers on municipal funding and their high variation over time highlight their relevance in the city's budget. However, despite the increase in revenues, São Mateus faces challenges in managing expenses, especially when it comes to adapting areas other than health and education.



São Mateus' financial autonomy is driven by the FPM and ICMS, but the lack of diversification of revenue sources represents a future risk. Short-term projections point to additional challenges, such as rising labor and pension obligations, which could affect financial sustainability.

In summary, this study highlighted how factors such as current transfers, dependence on specific revenues, and compliance with constitutional obligations affect St. Matthew's ability to manage its finances. Knowing these dynamics is essential for effective management.

It is relevant to mention that this research does not exhaust the topic of municipal finances, which remains complex and multifaceted. Future studies may explore the diversification of revenue sources, financial management strategies, and the impact of public policies on local development. In addition, comparisons with other municipalities can enrich our understanding of local budget dynamics. This work serves as a starting point and encourages future research on the subject.



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